Public Utilities

FORTNIGHTLY

Volume XLIX No. 11 May 22, 1952

PACIFIC NORTHWEST IN THE BIG SQUEEZE OF BIG GOVERNMENT

By Frank McLaughlin

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An Analyst Takes a Critical Look at Utility Equities

By Frank D. Chutter

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The Utility Magazine Is Growing Up!

By John E. Boulet

PUBLIC UTILITIES REPORTS, INC., PUBLISHERS

Public Utilities
FORTNIGHTLY

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Articles

Feature Sections

Public Utilities Fortnightly . . stands for Federal and state regulation of both privately owned and operated utilities and publicly owned and operated utilities, on a fair and nondiscriminatory basis; for nondiscriminatory administration of laws; for equitable and nondiscriminatory taxation; and, in general—for the perpetuation of the free enterprise system. It is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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Pages with the Editors

DURING the 1930's when socially sensitive criticism of American business enterprise probably reached an ideological peak, one of the favorite clichés used to discredit big business was "absentee control." It was "absentee control" that foreclosed the mortgages on the hapless dust bowl farmers. It was "absentee control" that was accused of draining the natural resources of many western states, channeling the profits from Main Street to Wall Street.

AMONG the old public utility holding companies, it was "absentee control" that was accused of milking the operating subsidiaries by charges for fictitious services, high-price equipment, etc. Big business, according to this critical view, was tending to concentrate more and more in the financial canyons of Wall Street, exercising far-flung domination over the economic lifeblood of many local areas of our country.

WE haven't heard much in recent years about that type of "absentee control." Utility companies certainly have been pretty well broken up and distributed. But a new factor has entered the field. It is the discovery that big business in the form of monopoly has not entirely disappeared. It has merely changed its address from New York, Boston, Chicago, Philadelphia, etc., to Washington, D. C.


FRANK MCLAUGHLIN


FRANK D. CHUTTER

THE opening article in this issue is a thoughtful exposition of what is happening to the power industry—in the broadest sense of the term—in the Pacific Northwest as the result of Federal government activity. FRANK MCLAUGHLIN, president of Puget Sound Power & Light Company, points out that the public rather than the investors in privately owned utilities may become primary victims of a Federal policy of public power expansion plans designed to chase private enterprise in the power industry out of the Pacific Northwest. The private investors can write off their loss of business. But the public can never write off the possible resulting loss of economic liberty.

MR. MCLAUGHLIN, whose article about what may happen to an entire area when it falls under the domination of a government monopoly opens this issue,

started his career as an office boy with Stone & Webster in Boston in 1912. He took student extension courses at Brown University and in 1919 was sent to the Southwest to help with the management of several Stone & Webster properties there. He became manager of the Baton Rouge Electric Company in 1924 and district manager of the southwestern district of Stone & Webster in 1929. He became president of the Virginia Electric & Power Company in 1930 and transferred to the presidency of Puget Sound Power & Light Company in Seattle the following year, a post he still holds. He has been constantly active in professional and community matters, and has written numerous articles on management, economics, and utility affairs.

* * * *

WHAT is the utility investor thinking about these days when the slow rise in utility rates seems incapable of keeping pace with the inflationary rise of operating costs? FRANK D. CHUTTER, utility specialist for the Massachusetts Investors Trust, gives us a penetrating X-ray picture of what the utility business needs to retain its appeal for the investors. Since the utilities must raise vast amounts of equity capital to carry out necessary plant expansion over the next few years, this kind of advice is not only important but essential.

MR. CHUTTER, whose article entitled "An Analyst Takes a Critical Look at Utility Equities" begins on page 676, received his MBA degree from the Harvard Business School in 1927 following graduation from Yale University in 1925. He acquired a well-rounded background in investment research and analysis during the next fifteen years in the investment banking, banking, and Federal regulatory fields. In 1943 he joined the staff of Massachusetts Investors Trust and is in charge of research on utility, steel, and rayon industries.

* * * *

JOHN E. BOULET of Central Surveys, Inc., Shenandoah, Iowa, has written us an informal account of how the utility employee magazine is growing up, beginning on page 689. MR. BOULET is a graduate of the University of California (BA), Los Angeles, and the University of Denver (MA). He has had newspaper and radio experience in Milwaukee and Minneapolis and edited a magazine for power plant workers of the Detroit Edison Company before joining the Mississippi Valley Public Service Company, Winona, Minnesota. During World War II he served as a volunteer in the British Army in Burma.

* * * *

AMONG the important decisions preprinted from *Public Utilities Reports* in the back of this number, may be found the following:

THE Oregon commission authorized a telephone company needing additional revenue to increase its rate for public coin boxes from 5 to 10 cents per call. (See page 1.)

THE Indiana commission ordered a telephone company to eliminate a provision in its tariff which allowed a stockholder a 25-cent discount despite the fact that the stockholders were required by the company's bylaws to own their own instruments and were receiving only the preference which any subscriber who owned his own instrument would receive. (See page 9.)

THE next number of this magazine will be out June 5th.

The Editors

JOHN E. BOULET

Coming IN THE NEXT ISSUE

★

THE JANUS STATE

Janus was an ancient Roman deity who faced two ways at once. To some extent, the Federal government operation in Washington is following this example. George M. Gadsby, president of the Edison Electric Institute, has written a provocative and exclusive message pointing up the soundness of industry planning to meet current and future emergency needs despite harassment and double talk from government critics.

THE BATTLE FOR THE ELECTRIC POWER PROGRAM

James F. Fairman, Defense Electric Power Administrator, has written an account of how the material controls for the electric utility industry were created and set up and how they are working out. As a result of the organization and administration of DEPA policies, the objective of a Gargantuan power production increase has come definitely within view of government control and industry officials.

BENEFITS FROM RIVER DEVELOPMENT—WITHOUT HITTING THE PUBLIC POCKETBOOK

A tax-paying river development in New York state's Genesee valley does, through private enterprise, the job of flood control, produces power for the farmer and city dweller, manufactures fertilizers and fungicides, and assists the farm homemaker and businessman in many ways, adding to the prosperity of the area. The story of this river development is impressively told in this article by Alexander M. Beebee, president of the Rochester Gas & Electric Corporation.

MAKING THE FEDERAL POWER COMMISSION WORK SUCCESSFULLY

Chairman Thomas C. Buchanan has contributed an intimate and interesting review of what makes the wheels go round in the nation's top regulatory commission for interstate gas and electric utilities. Like all human machinery, it is not perfect, but the basic pattern is working out successfully and with co-operation and understanding may well become even more successful, notwithstanding the heavy case load now bulking the commission's dockets.

INDUSTRY AND EDUCATION--PARTNERS IN PROGRESS

Two years ago The Cleveland Electric Illuminating Company held its first College Faculty Seminar for industrial-educational understanding and co-operation. Last year, upon the success of its second meeting with the educators, the company decided to make these biennial get-togethers a part of its future business policy. This article by F. E. Verdin, the company's director of personnel, tells why.

AFTER EMPLOYEE RELATIONS—THEN WHAT?

A cold-blooded analysis of whether employee education is worth the effort and, if so, what the program entails. Donald D. Hoover, president of Bozell & Jacobs, Inc., which is the public relations agent for the Public Information Program, has gone to the survey records for some factual conclusions about employee understanding of industry problems.

IS PUBLIC REGULATION OF UTILITIES IN JEOPARDY?

Frank C. Sullivan, San Francisco public utility consultant and veteran newspaperman, formerly on the staff of the California Public Utilities Commission, makes a sober plea for more emphasis on public relations to support the necessary decisions of regulatory authorities during a period of rising prices.

★

Also . . . ***Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.***

Remarkable Remarks

"There never was in the world two opinions alike."
—Montaigne

Robert M. Strozier
Dean of students, University of Chicago.

"Every right to do something is matched by a responsibility to anticipate the consequences."

D. A. Hulcy
President, Lone Star Gas Company.

"Who's going to bail out America if we follow Britain down the economic skid row of Socialism?"

Martin R. Gainsbrugh
Chief economist, National Industrial Conference Board.

"Re-examination is long overdue by the best brains this nation has of the rôle of government in our essentially free form of society."

Herbert Hoover
Former President of the United States.

"Without improvement in the minds and hearts of men, law and institutions are not enough to prevent deterioration in political behavior."

W. Glenn Campbell
Economist, Chamber of Commerce of the United States.

"Both government and business should recognize the fact that nothing is to be gained by making government a directing and regimenting institution."

Editorial Statement
The Wall Street Journal.

". . . we see no reason why the Federal government should take your money and finance the supply of one of the raw materials we use in our business."

Everett M. Dirksen
U. S. Senator from Illinois.

"Tyranny comes in the garb of administrative despotism, in which the judgment of the bureaucrat has replaced the economic decisions of the free market."

M. S. Rukeyser
Columnist.

"In government . . . few die and none resign. Instead of regarding over-all management as the artistic job of selection and rejection, the bureaucrats merely superimpose new agencies on old bureaus, ever making government more expensive and more complex."

Editorial Statement
Los Angeles Times.

"Nobody in this administration seems to realize that economy is not in saving on some one big item, but in saving on a myriad of small ones. One of the nation's largest corporations, the American Telephone and Telegraph Company, takes the trouble to save even a half inch of copper wire and has found that it pays."

Mrs. Lyonel Robinson
Vice president, New York Federation of Women Clubs.

"We know what smoke is. It's that nasty, horrible, stinking, unhealthy stuff that comes out of chimneys and smokestacks. And you fellows better help shut it off."

John W. Cline
President, American Medical Association.

"The battle against socialized medicine is only about half won. This is no time for complacency. With all our energies, we must continue our campaign against Socialism."

Harry Flood Byrd
U. S. Senator from Virginia.

"Does anyone who understands simple arithmetic believe that the United States government can long continue to spend at the rate of one-third of its citizens' total income?"

Raymond Moley
Columnist.

"In all government regulation, the essential structure of our constitutional system should be respected. Federal regulation is appropriate only in matters that are truly interstate in character or are genuinely related to other Federal powers. Regulation, like other government processes, is at its best when those responsible are close to and familiar with the problem they seek to solve."

Jawaharlal Nehru
Prime Minister, India.

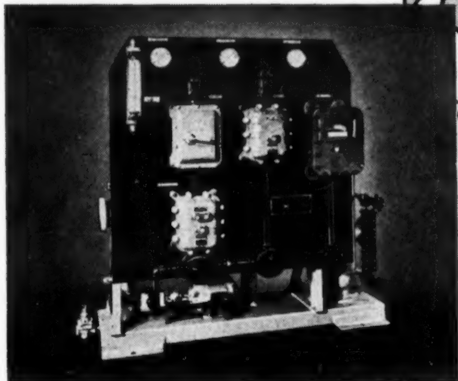
"I certainly do not consider free enterprise has anything to do with the concept of democracy. Democracy is for the good of all people. I do not want to give private enterprise a place it has in some countries, where it is virtually a demigod. If private enterprise clashes with the interests of the country as a whole, it will have to be put down or perhaps have to go, root, trunk, and branch."

Editorial Statement
County Herald (Ouray, Colorado).

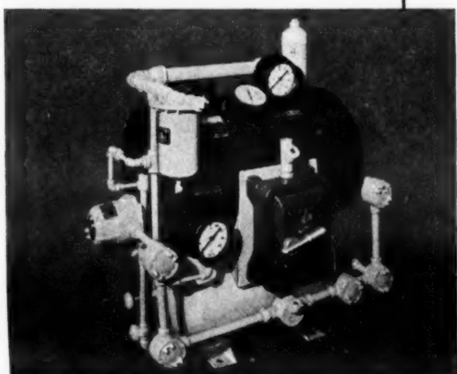
"Now, while we are supposed to be fighting for the freedom of the world at large, our Federal government has gone into California and grabbed an entire river that has been supplying irrigation for farms and villages for fifty years in undisputed possession. . . . It looks like we had better do a little fighting at home to put the Federal government in its place or we will be as badly off here as the Russians are."

Sydney Smith
Excerpt from "Edinburgh Review," published in the year 1820.

" . . . the habit of dealing with large sums will make the government avaricious and profuse; and the system itself will infallibly generate the base vermin of spies and informers, and a still more pestilent race of political tools and retainers of the meanest and most odious description; while the prodigious patronage which the collecting of this splendid revenue will throw into the hands of government will invest it with so vast an influence, and hold out such means and temptations for corruption, as all the virtue and public spirit . . . will be unable to resist."



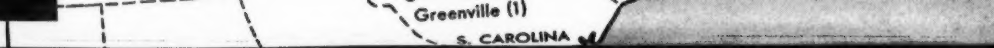
ELECTROIL FOGGER



PORTABLE FOGGER

PROOF that Gas Companies like the New

PORTABLE FOGGER



AN ARCHITECT GOT A MONEY-MAN TO ADMIT,

"I never thought of floors in relation to earning power"

"Floors are such a small fraction of total cost, one tends to forget that floor space is actually what a building is for. You say a steel Q-Floor costs less than the carpet to cover it? Yet it provides electrical availability over the entire exposed area of the floor. And the steel construction, being dry, reduces building time 20 to 30%. These are factors any investor can easily translate into terms of money saved. They mean more revenue over the years and earlier revenue right from the start. Let's look at the details—"

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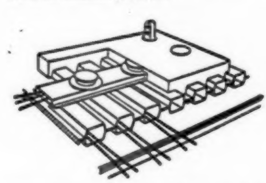
HERE'S WHAT THE ARCHITECT SHOWED

Why Q-Floor reduces building time 20 to 30%.

Q-Floor is steel subfloor, delivered pre-cut. Two men can lay 32 sq. ft. in 30 seconds. Construction is dry, incombustible. The Q-Floor is immediately used as platform by other trades. No delay for wet materials. No forms, no falsework, or fire hazard. Even when steel is slow in delivery, steel is still faster. You must allow time for demolition and excavation. By that time, the steel is ready. Steel construction gives a faster completion date. Completion time, not starting time, determines how soon your investment pays off.



Why Q-Floor keeps a building modern.

The steel cells of Q-Floor are crossed over by headers for carrying the wires of every electrical service, regardless of how many new business machines may be invented. An electrical outlet can be established on every six-inch area. It requires but a small hole, takes literally only a few minutes. No muss with trenches. Tenants can have as many outlets, changed as often and located exactly, as they please. Such permanently flexible floor plans keep a building permanently modern. The exterior may grow old-fashioned, but with live arteries of power in the floors, the building itself will never be electrically outmoded.

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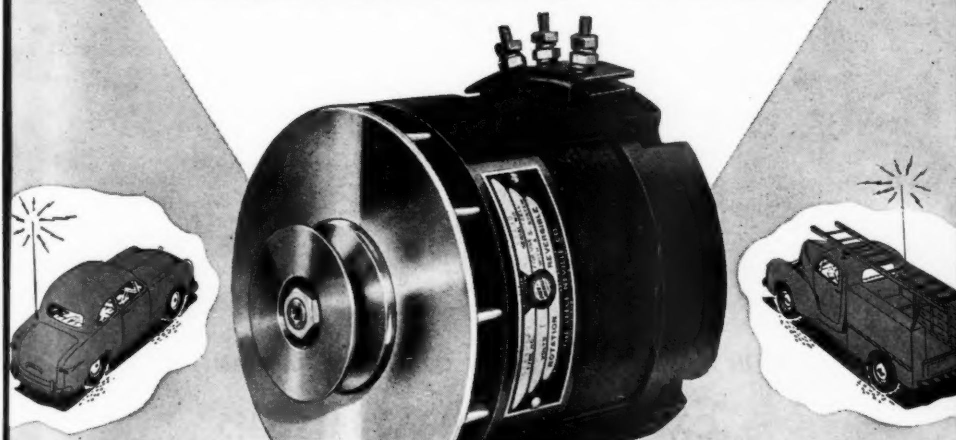

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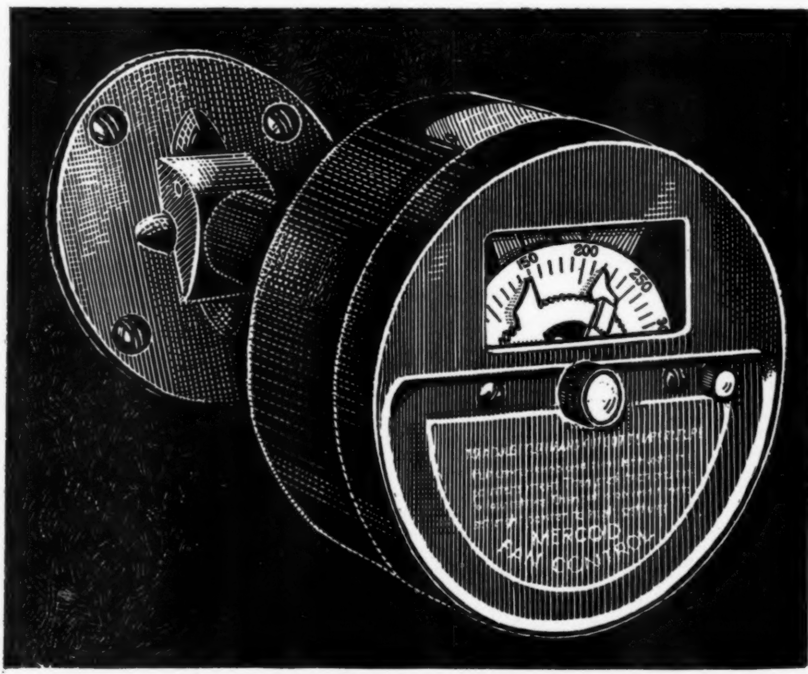

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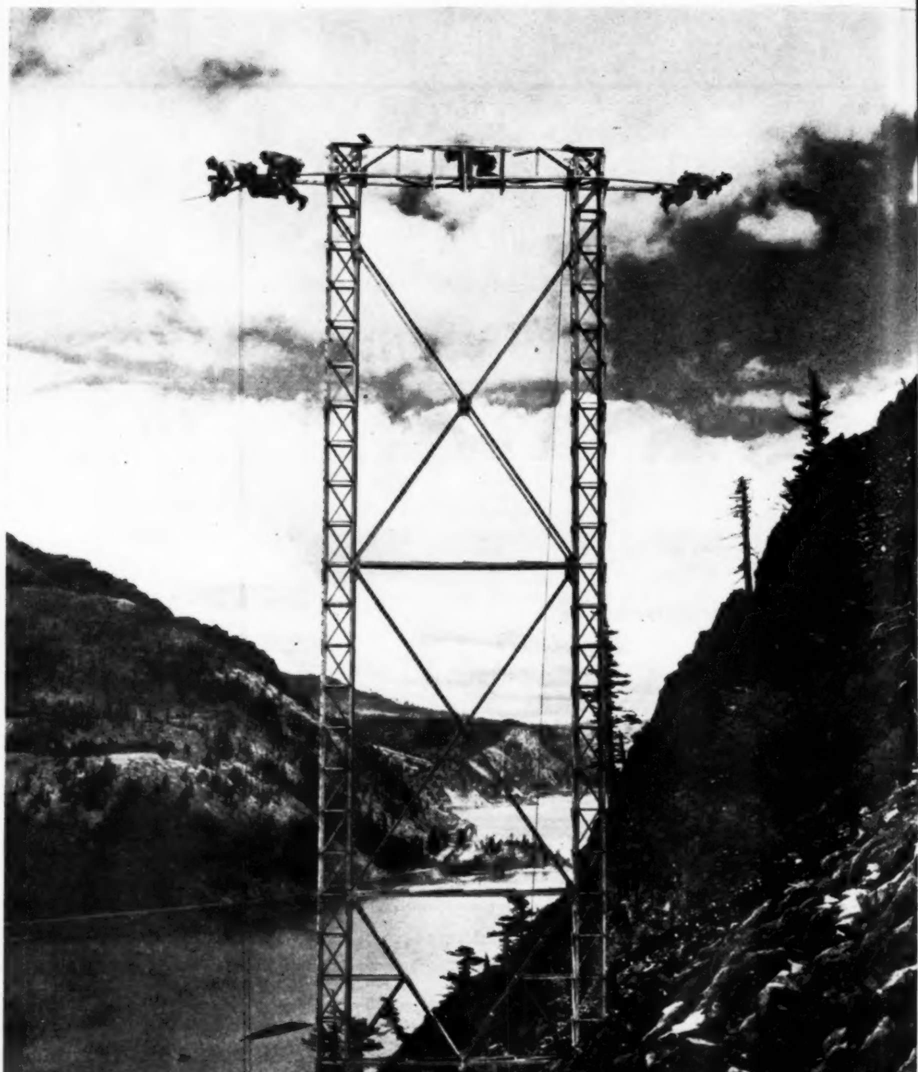
Utilities Almanack

May

22	Th	¶ *Northwest Electric Light and Power Association, Accounting and Business Practice Session, begins, Medford, Ore., 1952.*
23	F	¶ *Gas Appliance Manufacturers Association ends 3-day annual meeting, Colorado Springs, Colo., 1952.*
24	Sa	¶ *American Gas Association will hold research and utilization conference, Cleveland, Ohio, June 5, 6, 1952.*
25	S	¶ *Controllers Institute of America begins midwestern conference, Cincinnati, Ohio, 1952.*
26	M	¶ *AGA begins production and chemical conference, New York, N. Y., 1952.* ¶ *AWWA, Canadian Section, begins annual meeting, Montreal, Quebec, Canada, 1952.*
27	Tu	¶ *Missouri Association of Public Utilities begins annual convention, Jefferson City, Mo., 1952.*
28	W	¶ *Pennsylvania Electric Association, Prime Movers Committee, begins spring meeting, Easton, Md., 1952.*
29	Th	¶ *Southwestern Gas Measurement short course ends, University of Oklahoma, Norman, Okla., 1952.*
30	F	¶ *National Association of Electrical Distributors will hold annual convention, Atlantic City, N. J., June 8–12, 1952.*
31	Sa	¶ *International Organization of Standardization will hold triennial meeting, New York, N. Y., June 9–21, 1952.*

June

1	S	¶ *American Water Works Association, Pennsylvania Section, will hold annual meeting, Erie, Pa., June 18–20, 1952.*
2	M	¶ *Edison Electric Institute begins annual convention, Cleveland, Ohio, 1952.* ¶ *North Dakota Telephone Association begins annual convention, Minot, N. D., 1952.*
3	Tu	¶ *National District Heating Association begins annual meeting, Skytop, Pa., 1952.*
4	W	¶ *Indiana Telephone Association begins annual convention, Indianapolis, Ind., 1952.*



U. S. Department of the Interior photo

Tough Terrain along the Bonneville-Dalles Line

Showing steel tower which had to be built around Shell Rock mountain in the Columbia gorge.

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VOL. XLIX, No. 11 MAY 22, 1952

Pacific Northwest in the Big Squeeze of Big Government

It is becoming recognized that regional developments by gigantic multipurpose Federal projects may make the continued operation of a private power company economically untenable in certain areas. That, in itself, is bad enough. When that happens, however, the process used by governmental authority to acquire and absorb operating private utility properties creates a most important policy issue—one which can well determine whether the people of the area shall continue to enjoy economic and efficient service under their own control—or become the hopeless victims of a federalized monopoly, inaugurated under a ruthless divide-and-conquer program designed to strip the local area of its economic independence.

BY FRANK McLAUGHLIN*
PRESIDENT, PUGET SOUND POWER & LIGHT COMPANY

THE Pacific Northwest is presently a huge Federal government electric power empire and seems destined to be more so in the future. This is evidenced by the fact that during the 1951-52 peak-load periods, the Federal hydro system supplied 71.4 per cent (by 1958-59, 80 per cent is indicated) of the total hydro generation of all the private utilities and public agencies comprising the western group of the Northwest Power Pool.

Many will find it difficult to reconcile that this great frontier, hewn from a wilderness by resolute pioneers, should now be dependent on "Big"

*For additional personal note, see "Pages with the Editors."

government for its very existence. This is a sobering and ominous state of affairs and it poses these pertinent questions:

(1) Why is it that the Federal government dominates the power field in the Pacific Northwest?

(2) What are the implications and the consequences of a virtual Federal monopoly of this region's basic resource — hydroelectric power?

UNFORTUNATELY, we, as a people, seem reluctant to learn from the experience of others. Apparently we have to lose precious assets and freedoms before we appreciate the value of what we have lost. However, because it has happened here, it is felt that answers to these questions—predicated upon intimate knowledge and actual experience—should have wide significance. This view is clearly expressed in a cogent editorial—"Case History"—commenting on the plight of the Puget Sound Power & Light Company, which appeared in *The Bellingham Herald* of March 11, 1952, and is quoted in part as follows:

> Because this is a "case history" in government invasion and absorption of a private enterprise—the thing that is credited with generating our economic system—Puget Power's position is more than the plight of a single corporation.
>
> *To persons who may be tempted to say a corporation needs no sympathy, it can only be noted that if one phase of our economy, or even one corporation, can be put through the wringer by government—which is the biggest thing we have today—who can say that any other private enterprise is safe from a similar fate?*

BECAUSE it provides the substance for the monstrous public power buildup, it should be realized at the outset that the Pacific Northwest possesses the greatest hydroelectric resources in the United States—the potential being in excess of 30,000,000 kilowatts, of which around 25 per cent has been or is now being developed. The region has presently no other comparable energy base, such as natural gas, oil, or coal, which is available on a competitive cost basis. An adequate, dependable, low-cost hydroelectric power base is therefore vital to the region's economy and way of life.

As would naturally be expected, the development of hydroelectric projects in this state was initially pioneered by private capital, but around the turn of the twentieth century, the cities of Seattle and Tacoma ventured into the utilization of water power to produce electricity. So, public power came into being. Ever since, its expansion has been nurtured by "Big" government with every conceivable kind of public agency now in the act.

BY way of background, it is desired to point out that there has always been quite a glamour and fascination in the public mind with regard to the harnessing of rivers for the production of electric power. This has been capitalized on by the demagogues and politicians, who, for many years, have used the issue of the development of this region's vast water-power resources as a steppingstone to public office and as a millstone to be hung around the necks of the private utilities.

Their alluring propaganda line runs something like this:

These mighty rivers flowing swiftly down from the majestic mountains of this magnificent country are your God-given heritage. They belong to you—the people. You should build the hydroelectric projects. You should not permit them to be developed by the greedy wolves of Wall Street, whose only purpose is to make huge profits at your expense.

In that many residents of the region —because of their antecedents—have an affinity for co-ops, and the like— the tirades against private power found attentive ears and responsive audiences. Thus the stage was set for a bitter struggle between private and public power and the state of Washington became the scene of the "hottest" ideological power war imaginable, with Puget's service area the main battleground. It also should be noted here that public power would not have grown as it has if so many people— who are beneficiaries of the private enterprise system — had not forsaken their heritage for a seat on the public power band wagon. Puget, long confined to the "torture chamber," is under death sentence today because, over the years, it has been sold down the river by those who gave their patronage and support to public agencies, or refused to vigorously fight to preserve free enterprise. After all, it's the people who make the decisions and write the ticket as to the kind of utility which furnishes their electric service.

THE betrayal of their public trusts by the Insulls, the Hobsons, and others of their ilk, and the propublic power policies and acts of the Roosevelt administration, put the private utilities in the doghouse and gave the local demagogues and public power advocates effective ammunition for the launching of new and heavier attacks on the utility companies. The approach was not so much one of reformation, where necessary, and the elimination of the abuses which existed, as it was to put the private companies out of business and supplant them with public operations.

In the wake of such goings-on, vicious and barbaric state laws were enacted and public utility districts (PUD's) were conceived and organized in the state of Washington. Shortly thereafter a number of PUD's attempted to get into business through piecemeal condemnation, but their initial efforts were unsuccessful. One of the major deterrents in those days was the difficulty of individual PUD's obtaining a power supply.

Up to the time that the huge Federal projects on the Columbia river at Grand Coulee and Bonneville were brought into being in the late thirties,

"THE *Pacific Northwest is presently a huge Federal government electric power empire and seems destined to be more so in the future. This is evidenced by the fact that during the 1951-52 peak-load periods, the Federal hydro system supplied 71.4 per cent (by 1958-59, 80 per cent is indicated) of the total hydro generation of all the private utilities and public agencies comprising the western group of the Northwest Power Pool."*

power production was at the local level.

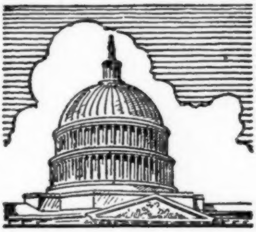
With the entrance of the Federal government into the power supply field in a big way, and its building of a vast transmission network, the whole power picture changed radically. The Federal projects were glamorized in the best New Deal manner and the people were deluged with propaganda as to the amazing benefits that would result from the production of huge quantities of cheap public power. Uncle Sam was represented as ever the Santa Claus for the more abundant life.

The PUD's, municipalities, and other public agencies, were encouraged and prodded to get into the electric business and to distribute Bonneville-Grand Coulee power — the objective being to liquidate the private utilities. Because the PUD's then had a power supply from Federal projects at their front doors, there was an epidemic of condemnation suits, and every private utility in the state has subsequently lost some property as a result of condemnation actions.

BECAUSE it clearly evidences basic intent, it should be understood that the Federal government has long sought to obtain possession of Puget's "power pool." In March, 1944, the government proposed purchase of the company's entire electric properties—the plan being that it would retain Puget's generation and transmission facilities and eventually sell the distribution properties to various public agencies. This proposal was unacceptable to the company, which strongly feels that the public interest is best served by keeping its "power pool" in local hands. But the Federal government is persistent in its objectives. Again in December, 1950, "Big" government threatened seizure of Puget's Rock Island hydro project on the Columbia river for the purpose of expanding it so as to provide power for an aluminum plant to be located near by. The government's plans were thwarted by the company entering into an agreement for the enlargement of generating facilities with the Chelan PUD, which has Rock Island under condemnation.

Grand Coulee (present capacity 2,160,000 kilowatts) was initially undertaken in the depression thirties as a "make work" project, and it and the Bonneville development (present capacity 564,000 kilowatts) were also said to be designed as yardsticks for measuring the performance of the private utilities. Then along came World War II, creating not only a market for Bonneville-Grand Coulee power, but also providing a springboard from which the Federal planners pushed the government "head over heels" into the power business.

WHILE the original approach with regard to multipurpose projects in this region was one of power being more or less incidental or related to irrigation, flood control, and navigation, under the impetus of requirements for national defense, power became the dominant feature. The Federal government forthwith declared its intention to develop the best available power sites on the Columbia and tributary rivers. Large power-consuming industries, such as aluminum, magnesium, and heavy chemicals, were located in the region. The demands



Price of "Absentee Management" of Regional Resources

"FEDERAL domination of the region's hydro power resources has not brought an adequate power supply, but it has placed the well-being of the people and the economy of the region largely at the mercy of 'Big' government. Instead of getting a free ride on the Washington, D. C., merry-go-round, the citizens of the Pacific Northwest are faced with having to pay a high price for something they seem to have lost—control of their own resources and destiny."

for electric power skyrocketed — and this brought forth more and more Federal power projects.

THE influx of heavy power-consuming industries substantially changed the economy of the region, giving it an industrial base which it did not have prior to the early forties. Because of this, and other factors, the demand for kilowatts kept on climbing subsequent to World War II. The Korean war and the present national defense program further accelerated the expansion of the Federal government's generation and transmission facilities in order to supply the greatly increased power needs. The government at present has under way projects which are anticipated to provide a total of some 4,000,000 additional kilowatts by the late fifties. Congress has also authorized 12 more projects, totaling around another 4,000,000 kilowatts, for which appropriations have not been made.

In the face of the tremendously large, "low-cost" Federal power developments, and the government's propublic power-marketing policies, it became unfeasible for the private utilities to build new generating facilities.

AS a practical matter, the day the Federal government entered the picture in the Pacific Northwest, the private utilities were, for the most part, stopped in their tracks and the Federal government took over the primary responsibility for the future power supply of the region. Because of the temporary advantage of accelerated amortization permitting rapid tax write-offs, and other factors, some of the private utilities in the region are now building several hundred thousand kilowatts of additional

hydro capacity. Certain local public agencies are also increasing their hydro generating facilities, but in toto this is just a drop in the bucket compared with what the Federal government is now doing, and what it has projected and authorized, as to power supply.

Of course, a primary cause for public power's existence and growth in the Pacific Northwest and elsewhere, is its tax subsidies, cheap money, and other advantages, which, under present laws and conditions in the state of Washington, amount to around 30 cents per dollar of gross revenue. Take in the matter of Federal income taxes alone, public agencies exempt from such taxes presently have 100-cent dollars of net income, as compared with only 48-cent dollars, or less, for the tax-burdened private utilities. No business can give its competitors substantial cost advantages and hope to live. As things stand today, private and public power cannot competitively co-exist, any more than Capitalism and Communism can live in the same house.

The priority (preference clause) accorded public agencies in the availability of electric power from Federal projects has also been used as an effective tool for the expansion of public power in this region.

Now let us take a look at the implications and consequences of a virtual Federal monopoly of the Pacific Northwest's basic resource—hydroelectric power. To help bring the picture into focus with regard to Puget's and the over-all situation, it is appropriate to further quote from *The Bellingham Herald's* "Case History" editorial of March 11, 1952, as follows:

> Meanwhile, the Federal government is pictured as standing by in eagerness to see the corporation broken up piecemeal under the state's "vicious and barbaric" laws, so that it may attempt to realize its long-cherished ambition of grabbing off the company's generation and transmission facilities on its own terms and thus make its control of the power field more binding.
>
> So it is a three-way squeeze: (1) piecemeal condemnation by individual PUD's, now in progress; (2) over-all acquisition, favored by the company as the lesser of the evils, if it is to be absorbed by public power; and (3) ultimate control by the Federal government through the Bonneville Administration.
>
> As *The Mount Vernon Argus* stated the case, "the choice is rapidly narrowing now, not as between private and public power, but between locally and federally controlled power."
>
> *The impact of this is that originally the assault on "private power" was fostered under the guise of "local ownership and control." As the squeeze increases it is the biggest government of them all that threatens to absorb the lesser. Private enterprise is the pawn in the game.* (Italics supplied.)

The Federal government is today in the driver's seat as a result of assumption of control of the region's basic resource — hydroelectric power. This situation came about because of (a) the Columbia basin's huge hydroelectric power potential; (b) power development being tied in with and related to irrigation, flood control, navigation, and other Federal functions, embracing a wide geographical area and with the Federal government as the only entity with the authority and resources adequate to develop huge multipurpose projects; (c) wars, and

the threat of war, which prompted the location in the region of large power-consuming industries, thus establishing a substantial industrial base and consequent greatly increased power demands; and (d) the low power rates of the Federal government's Columbia river system.

It is no secret that the Federal government's ambition is not only a monopoly of power production, but control of end use as well. That this is not simply a pipe dream of a beleaguered private utility official, whose company is being victimized, is evident from the following quotations from statements made by C. A. Erdahl, commissioner of public utilities of the city of Tacoma (municipal plant) and chairman of the Pacific Northwest Power Conference (includes representation from all private and public utilities comprising the western group of the Northwest Power Pool):

Tacoma News Tribune—
December 9, 1951

We want to have the BPA (Bonneville Power Administration) as a partner, not a boss. The main battle lies in the fact that the Federal government is determined to control all the electrical power in the Northwest.

Tacoma News Tribune—
February 4, 1952

I feel that the question of whether I am to be re-elected as commissioner of public utilities [was re-elected] is definitely related to the question of whether the city of Tacoma is to maintain an independent position in the service of electric energy to its homes and industries, or is to become merely a cat's-paw in a gigantic Federal system of power supply under rules, regulations, and politics dictated from Washington, D. C. . . .

At first, neither the state nor the Federal government was interested in electric power supply. But since the late 1930's, the United States government has become a dominating factor in the generation and distribution of power.

EXPERIENCE shows that when the people of a region turn a major function, such as power supply, over to the Federal government, they are in for a rough ride on the Washington merry-go-round. Under such circumstances, instead of having power expansion geared to the demands of the region, it is tied to the attitudes of the President and of Congress and subject to the byplay and interplay of all sorts of extraneous factors and political pressures. Among other things involved are party, sectional, and ideological differences—changing policies as to pump-priming, defense spending, and budget-slashing — inflationary or deflationary trends — and, of course, logrolling and red tape.

"... it is apparent that the Federal government not only wants a monopoly in the field of generation and transmission, but its purpose is to rigidly control retail distribution of electrical energy as well. That a pattern is being evolved to accomplish complete domination is evident when one pieces together the tactical maneuvers, the expansion schemes, and the contract and other practices of the Federal government."

Further, most members of Congress are more concerned with the welfare of the particular areas they represent than in fostering the development of the Pacific Northwest.

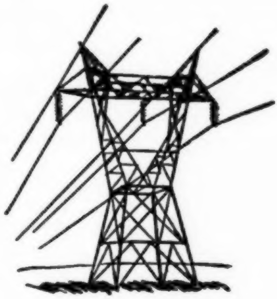
Despite its vast hydroelectric power potential, the Pacific Northwest has been plagued and menaced by a chronic power shortage for several years now, and it is indicated that such will be the case for some time. Recently a spokesman for the Federal government placed the date when the shortage might end as 1958. As a matter of fact, under the circumstances of complex government procedures and involved political processes, and with appropriations dependent, among other things, upon the moods of Congress, it is not clear how there can be assurance of the regional power supply being in balance with demand at any time. Further, the Federal government's power program is currently engulfed in controversies involving, among others, such issues as states' and Federal rights—fish against power, and public *versus* private power.

In a pungent editorial on February 5, 1952, the *Seattle Post Intelligencer* made the following observations with regard to the power shortage:

> There is no question that the available power is not sufficient to meet the demand but Seattle citizens who have such a big stake in City Light (municipal plant) may well question how this has come about.
>
> They may ask—and should ask—whether City Light's hookup with a Federal satrapy with a proconsul in Portland and first allegiance to a bureaucracy in Washington, D. C., is any good for the people around here.
>
> They may well ask whether the first concern of the Bonneville Power Administration has been to sell the power generated by the rivers of this area not to the best advantage of the people of this area but primarily to make a fine financial showing back in Washington, D. C.
>
> Much of our power is being taken by low-employment aluminum factories for reduction of ore that is processed into finished products elsewhere. Perhaps this is necessary. But the way the present national administration has kicked around the aluminum problem as a whole does not inspire much confidence in its views one way or the other.
>
> We are being starved for power in the midst of boundless natural resources.
>
> Plenty of excuses for this sad state of affairs have been forthcoming.
>
> But a lot of them haven't sounded too convincing.

As previously remarked, it is apparent that the Federal government not only wants a monopoly in the field of generation and transmission, but its purpose is to rigidly control retail distribution of electrical energy as well. That a pattern is being evolved to accomplish complete domination is evident when one pieces together the tactical maneuvers, the expansion schemes, and the contract and other practices of the Federal government.

Take rates as an example—the government fixes the rates, terms, and conditions under which the local utilities purchase power from the Federal system, and the so-called 5-year contracts signed with the private utilities last year contain a provision which gives the government a club as to the retail rates of the five utilities involved, notwithstanding that such rates are already regulated by state or Federal



The Shadow of Federal Competition on Private Financing

"*In the face of the tremendously large, 'low-cost' Federal power developments, and the government's propublic power-marketing policies, it became unfeasible for the private utilities to build new generating facilities. As a practical matter, the day the Federal government entered the picture in the Pacific Northwest, the private utilities were, for the most part, stopped in their tracks and the Federal government took over the primary responsibility for the future power supply of the region.*"

commissions, or both. In essence, the contracts provide that as, if, and when the Bonneville Power Administration is in a position to furnish the utilities' prime power requirements, domestic and rural rates must be reviewed annually, and if an agreement is not reached regarding such rates, Bonneville can refuse to extend the power purchase contracts.

As illustrative of the whip-hand held by "Big" government over the retail rates of a local public agency, it should be pointed out that the contract under which the Snohomish PUD purchases power from the Bonneville Power Administration provides that before power is delivered to the district, the resale rates have to be approved by BPA and except upon BPA approval, the district cannot change its rates. Also, if the district increases or alters its resale rates or changes the relationship between rates for various classes of customers without BPA approval, the contract can be canceled within eighteen months. Further, the district is required to furnish operating and financial data as to its performance to BPA. If the data are unduly delayed, BPA may obtain the information with its own staff. (The Snohomish County PUD was given this power contract so it could substitute condemnation proceedings against the company.)

Suffice it to say, that when the Federal government fixes the rates at which a local purchaser both buys and

sells, the utilities affected—be they private or public—are to all intents and purposes placed in strait jackets and become more or less "captive" entities.

During and since World War II, the Federal government — because of its domination of the power supply—has dictated the nature and the site of large industry located in the Pacific Northwest. During World War II, by refusing to provide the additional power required, it declined to permit the Aluminum Company of America to expand its facilities at Vancouver, Washington. In this instance, control of electric power was used to prevent the further growth of a so-called monopoly and to foster competition because the power denied Alcoa was made available to another corporation so that it could enter the aluminum field.

The Federal government is responsible for the locating of the large power-consuming industries in the region (to the exclusion of others). Even though almost 50 per cent of the pig aluminum production in this country was at the time coming from the Pacific Northwest, last year the Interior Department dictated the establishment of additional aluminum plants near Wenatchee, Washington, and at Kalispell, Montana. With power in short supply, such acts by government deprive the area of industrial diversification essential to a balanced economy.

The Federal government's transmission lines blanket the region and it presently serves direct a number of large industrial customers. It is understood to be the government's ambition to supply all large industry in the region. The Federal transmission facilities appear to be designed with this end result in mind. It is currently somewhat handicapped in the fulfillment of this objective by a regional power shortage, but when the power supply is sufficient as a result of a depression, or otherwise, it is anticipated that the government will make an all-out drive—through rate concessions and special inducements—to obtain the large customers of local utilities, regardless of whether they are private or public. In recent years, Puget has lost a number of large power customers to the Federal government, such as Simpson-Rayonier, Crown-Zellerbach, the Bremerton Navy Yard, and the Clallam PUD.

With power in short supply and the private utilities limited as to the size of the new power loads they can take on, the spectacle unfolds of the Federal government sending its representatives into Puget's territory to dangle plums in the way of new industries before the eyes of cities hungry for such plums. This appears to be an attempt to make such communities conscious of the fact that their progress and welfare depend on their playing the game the way the Federal government wants it played. These cities are told of the plans the government has for building huge substations in their front yards, which will provide assurance of an industrial future—and again let it be said all of this at a time of a regional power shortage.

Under the guise of decentralization of its power operations, the Federal government is now building up strongholds of personnel in key cities in Ore-

gon and Washington. It is surmised that the real intent of this move is to make Federal control more binding at the local level. With regard to its electric power objectives, the Federal government has a large and effective propaganda machine, and is a master of the infiltration techniques essential to achieve its ends. At present, some of the officials of local public power agencies are unwittingly, or otherwise, mere puppets of the Federal autocracy.

If the Federal government's policy persists, it could eventually mean that local public and private utilities would be autonomous in name only and a Federal "octopus" would be running the whole show—calling all the shots. Power-wise and otherwise, the people and the economy of the region would be regimented. Under such circumstances a valley authority would exist in practical effect—if not in name. As things are trending, the line of demarcation is growing awfully thin—the Federal government's transmission lines presently constitute a prospective "gallows" for all local electric utilities.

AFTER weighing the plusses and minuses, and realistically appraising the consequences of the Federal government's activities in the power field in the Pacific Northwest, the following observations are deemed to be in the public interest:

First of all, electric power should be developed by the Federal government only as an integral part of economically sound and feasible multipurpose projects. Power so produced should be sold at the bus bar—not used to create huge far-flung Federal monopoly, nor as an ideological weapon.

Second, in order to bring low-cost power to the ultimate consumer, it is not necessary for the Federal government to build a vast transmission network, as has been done in the Pacific Northwest. All transmission and distribution of power should be at the local level, with each state concerned taking such steps as are necessary to assure that the power produced from Federal projects is made available to the people at fair rates, through means of private or public agencies, as the people themselves may determine.

THIRD, if the Federal government builds transmission lines from multipurpose projects, it just gets to be all powerful, economically, politically, and socially—it is in a position to exercise too much direct control and to exert too much pressure over the lives of the people and the economy of the region.

Such an iron-handed dictatorship is not compatible with our democratic processes and violates the fundamental concept of American freedom as regards local self-government. It

¶ "IT *is desired to emphasize that when 'Big' government not only dominates the power supply of a region, but also has its transmission lines seemingly everywhere, it is in a position sooner or later to exercise a strangle hold over everybody and everything. Federal control and regimentation are inseparable."*

can be suicidal to have the economic well-being and the fate of a region in the hands of a central government.

FOURTH, it is not in the best interests of the people and the economy of a region to have a virtual Federal monopoly in the power field. In the first place, it does not make good sense that a vital local economic tool, such as electric power, should be a football for bureaucrats and politicians in Washington, D. C., whose main concern is "frying other fish." The Federal government has no clear-cut power policy. It is not set up to operate a gigantic power business. Judging from the experience of the Pacific Northwest, which is afflicted by a chronic power shortage, there is no way for the Federal government to assure the people of a region of adequacy and continuity of power supply —even a valley authority would not do so.

However, as a study of the picture here in the Pacific Northwest reveals, the greatest menace of Federal domination in the power field is found in the hold that "Big" government exercises over the region and in the loss of home rule. Local autonomy succumbs to Federal monopoly. The people most affected have little say as to how their basic resource is to be developed and utilized. This region is no longer master of its own destiny— it is currently pretty much of a tail to the government's kite. The Federal "octopus" is using its control of kilowatts to shape the regional economy to fit its pattern. In this connection, the following quotation from a thought-compelling editorial — "Beware of Bonneville" — published in *The Mount Vernon Argus* on December 6, 1951, is deemed pertinent:

> It seems to us that the public and the newspapers of northwest Washington have been slow to awaken to the maneuverings now going on to gain control of the electric power system which Puget Sound Power & Light company is being forced to sell to public agencies.
>
> We do not refer to the move of seven county public utility districts to acquire the power system, but rather to the semi-behind-the-scenes moves being made by the Bonneville Power Administration through its chief, Dr. Paul Raver. Commissioners of these seven PUD's were scheduled to sit yesterday in reluctant, or premature, conference with Dr. Raver regarding the distribution of Federal power when and as the PUD's take over Puget.
>
> As the Puget purchase plan has been taking shape, its promulgators have planned on the principle that any needed Federal power would be bought for the seven counties on a pool basis under a single simple contract, and distributed among the local PUD's according to the needs of the system as a whole, as Puget has been doing. But, with the deal as yet unmade and no power properties to operate, the PUD commissioners are suddenly called upon by Dr. Raver to meet with him and work out separate contracts with each county.
>
> *This would be a sweet deal for officials of a mind to promote Federal (Washington, D. C.) control as opposed to local decision, if not to use their powers to grant or withhold electric contracts for political purposes. If they were of such a mind, they could play one county off against another, grant favors in the form of scarce electricity to the county's commissioners who played ball, on issues such as the CVA, for example, and rate structures, for another. The reader may take it from there. This indeed is an economic power to contend with, for*

the Puget pool as a whole, let alone on a county to county basis. (Italics supplied.)

It is desired to emphasize that when "Big" government not only dominates the power supply of a region, but also has its transmission lines seemingly everywhere, it is in a position sooner or later to exercise a strangle hold over everybody and everything. Federal control and regimentation are inseparable. "Big" government can move with the crushing force of a glacier maybe slowly but anyhow inexorably—to destroy whatever lies in its path.

Fifth, and finally, with its outlook precarious and uncertain the Pacific Northwest must re-examine the whole power picture and seek ways and means by which it can recapture some measure of control over its basic resource—hydroelectric power. So doing is akin to unscrambling an egg, but, nevertheless, prompt and resolute action is imperative to the end that this region obtain the greatest possible benefits from its hydroelectric power potential, with a maximum of home rule and a minimum of Federal domination.

THE Spokane *Spokesman-Review* calls for action along this line in a timely editorial on April 1, 1952, as follows:

> The industrial future of the Pacific Northwest depends to a great degree upon the availability and use of hydroelectric power. . . .
>
> In the light of the recent congressional decisions to curtail the dam construction programs of the Army Corps of Engineers and the Bureau of Reclamation, it is time for industrial leaders and civic organizations to survey all the angles of this problem.
>
> There are many complex economic and political aspects involved in this situation. But it certainly is time for commercial interests and for the agencies of the state government to show some leadership in the promotion of the industrial future of the Northwest.
>
> We have become so accustomed to running to Congress each year for appropriations for each dam that it is going to be difficult to reconcile ourselves to finding new methods and new machinery for increasing our power supplies, for enhancing our growth, and for recapturing a greater degree of local control over our own economy.
>
> But the day is soon coming when new ideas must be probed and new devices found for insuring full and speedy development of our untapped power resources.

WHILE, generally speaking, the picture has been one of the people being promised, day in and day out—year after year—a Utopia, with Federal electric power as a cure-all, things have not worked out that way. The claims of abundance are now cries of scarcity—what was advertised to be a feast has turned into a famine. Federal domination of the region's hydro power resources has not brought an adequate power supply, but it has placed the well-being of the people and the economy of the region largely at the mercy of "Big" government. Instead of getting a free ride on the Washington, D. C., merry-go-round, the citizens of the Pacific Northwest are faced with having to pay a high price for something they seem to have lost — control of their own resources and destiny.

An Analyst Takes a Critical Look at Utility Equities

Here is a message from the viewpoint of the investor to regulatory commissioners, legislators, and utility managers. Since the utility industry contemplates an expansion over the next few years substantially greater than that witnessed in any comparable period in its history, vast amounts of equity capital will be required. Hence the problem: What do utilities need in the way of earnings to enjoy investor appeal in a highly competitive equity market?

By FRANK D. CHUTTER*

WHILE considering the practical problem of financing future utility industry expansion, one cardinal fact should be remembered. Investors obviously have complete freedom of choice as to whether to invest their savings in industrials or in utilities or some other media. Thus the utility companies must compete with all other business enterprises for the savings of the thrifty and convince investors that utility equities have definite long-term attraction compared with other common stocks. The question naturally arises, is the record established by the utilities in the past decade sufficiently good to attract the savings of investors?

One test is relative market performance. Table I shows the relative market position on January 2, 1952, of 41 common stock group indexes as compiled by Standard & Poor's, restated with the average for January, 1940, equal to 100.

This table reveals that utility holding company equities ranked twelfth and stood at 235.4 on January 2, 1952, compared with the median performance of 176.9. It should be realized that holding company equities were not popular in January, 1940, because of the fears concerning the impact of the Public Utility Holding Company Act of 1935.

Of far greater significance is the fact that utility operating equities ranked thirty-fourth in the list of 41 indexes, while the telephone and telegraph equities ranked thirty-eighth. Since January, 1940, the former had shown appreciation of about 12 per cent while the latter had depreciated

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*Utility specialist for Massachusetts Investors Trust. See, also, personal note in "Pages with the Editors."

more than 8 per cent. Performance of the median or twenty-first group was appreciation of about 77 per cent. The Bureau of Labor Statistics index of consumers prices for moderate income families in large cities suggests that living costs had increased about 87 per cent during these intervening years.

TURNING to the dividend record of utility operating companies, a similar disappointing picture is found. Table II (page 678) shows an index of the dividend record of 24 utility companies, with 1940 equal to 100, compared with a similar index for a group of 125 industrial stocks. Both indexes were based on data compiled by Moody's.

These data show that, on the average, utility dividends were reduced in 1941 and 1942 when the maximum cut was more than 18 per cent. Subsequently there was a gradual increase over the following nine years, but even in 1951 this index exceeded the 1940 level only by about 22 per cent. It was not until 1947 that utility dividends exceeded the 1940 level. In contrast to this drab showing, the index of dividends of a diverse group of 125 industrials increased to 266 in 1951. Moreover, dividends dipped below the 1940 level in only two years and the aggregate of these negative deviations was only 9 per cent or an average of 4.5 per cent for the two years. Certainly such a sad relative showing of the utility operating companies in respect to dividend disbursements is a poor attraction for investors.

Protecting Utility Equities from Inflation

THIS, of course, is now history and is of interest to investors only in so far as it aids in appraising the risks of the future. Had the purchas-

TABLE I

INDEX OF RELATIVE MARKET PERFORMANCE—STANDARD & POOR'S INDEXES—JANUARY, 1940=100

Fertilizers	544.2	Shipbuilding	170.5
Paper	485.3	Auto Parts & Accessories	165.2
Tire & Rubber Goods	463.5	Soaps	158.7
Oil	372.2	Mining & Smelting Misc.	156.6
Radio Broadcasting	318.7	Electrical Equipment	155.1
Textiles & Apparel	317.0	Lead & Zinc	150.6
Theaters	295.9	Foods	149.4
Office & Business Equipment	290.9	Sugar	149.0
Shipping	269.5	Finance Companies	140.4
Printing & Publishing	243.5	Containers—4 Glass	135.8
Air Transport	237.2	Shoes	133.7
Utility Holding Companies	*235.4*	Railroad Equipment	120.6
Agricultural Machinery	216.9	*Utility Operating Companies*	*111.7*
Leather	211.8	Aircraft Mfg.	104.9
Building Materials	211.2	Confectionery	104.0
Copper	209.3	Containers—Metal	101.6
Steel	205.5	*Telephone & Telegraph*	*91.4*
Retail Trade	197.9	Gold Mining—Canada	87.4
Automobiles	188.0	Tobacco	77.6
Machinery	178.6	Gold Mining—U.S.A.	55.1
Metal Fabricating (Median)	176.9		

ing power of the dollar remained constant in the past decade and had the tax laws been equitable, the picture would have been materially better. There still remains the risk of further substantial inflation. With an $85.4 billion Federal budget under consideration and its concomitant $14.4 billion deficit,[1] with another round of sharply higher wage rates apparently in the offing, and with the ever-present risk of another world conflagration, the probability of inflation over the longer term is a major risk factor for prospective purchasers of utility equities. As long as the risk of inflation is material, just so long will utility equities remain unattractive, in view of the record of the past decade, unless (1) the excess profits tax is eliminated in respect to utilities and (2) regulatory commissions grant a larger rate of return.

The argument is advanced that the market values of utility equities are less vulnerable than those of industrial equities. In the first place, utility equities, like the industrials, are selling at their highs for about twenty years. In the second place, the spread between the yields on utility common stocks and preferred stocks is now about 1.1 per cent. To measure the significance of this statement, it may be said that a narrower spread has been witnessed in only fifteen months in the last fourteen years. The spread may be increased by a reduction in the yield on preferred stocks, but any material move in this direction would seem to depend on a change in policy in respect to interest rates on government bonds. The market prices on quite a number of utility common stocks have already discounted modest increases in dividends. Unless dividend increases are much more widespread than now seems likely, then it is fair to say that utility equities are by no means free from risk of declining market valuations. A substantial influence on the recent markets for utility equities has been the demand by defensive-minded investors. Such demand can prove to be quite transient.

[1] This figure probably is high due to overestimating expenditures and underestimating income.

TABLE II

MOODY'S AVERAGE DIVIDEND RATES
INDEXES WITH 1940 = 100

	24 Utility Common Stocks	*125 Industrial Common Stocks*
1940	100.0	100.0
1941	93.5	108.0
1942	81.8	98.0
1943	83.1	93.0
1944	85.6	100.0
1945	84.4	105.0
1946	92.8	111.0
1947	101.3	140.0
1948	103.9	166.0
1949	107.8	191.0
1950	114.3	226.0
1951	122.1	266.0

THUS, there is a basis for believing that, some time in the future, the markets for both industrial and utility equities may become vulnerable to a less satisfactory outlook for general business conditions. In this event it may be that utility equities will perform relatively better, both marketwise and dividendwise, than many groups of industrial stocks. This is the viewpoint expressed by some regulatory authorities who then conclude that utility equities are attractive without an increase in over-all return.

The investor's rebuttal to this position may be summarized as follows:

(1) In the event of a market shakeout, cash is materially superior to either public utility or industrial equities, assuming, of course, that income return is of nominal consideration and the two critical turning points can be gauged with reasonable accuracy.

(2) This reasoning does not even attempt to refute the argument that utility equities, under present regulatory and tax concepts, lack protection from the confiscatory effect of inflation.

(3) It is extremely difficult to visualize conditions arising which would force a reduction in the industrial dividends by an average of 25 per cent for more than a nominal period. On this extreme basis the index for industrial common stock dividends would be reduced from 266 to about 200 and the latter figure would compare with an index of 122 for public utility dividends. Even on this assumption, the investor would have been far better off in industrial equities than in utility equities, taking the period since 1940 as a whole.

(4) The relative merits of industrial and utility equities should be judged on the basis of an entire business cycle and not on a minor portion of such a cycle.

Intelligent equity investors are not unwilling to assume risks *provided* the income return includes an adequate premium at least commensurate with the risks involved. One of the major groups of risks arise from regulation.

Regulation Is a Major Risk

WHAT are some of the factors in which an investor is interested when appraising the regulatory situation and determining the amount of the premium he should charge for assuming the risk of an unfair deal from the regulatory commission? Why does an analyst prefer to invest funds in one jurisdiction rather than another? Generally speaking, the conclusion is reached from adding up numerous plus and minus factors and evidence arising over a period of years. Seldom is it possible to reach a conclusion based on a single case.

To illustrate an instance in the latter category, one needs only to cite the case of Public Service Company of New Hampshire, D-R2989, dated July 6, 1951, in which the commission concluded at page 55 "we find a 5.2 per cent rate of return fair and reasonable" and granted a $600,000 increase in rates sufficient to produce an estimated 5.41 per cent return. The relief granted proved inadequate and insufficient to provide the 5.41 per cent expected return, with the result that the company had to file a petition for emergency rate relief on October 9, 1951 (subsequent amendment made it a petition for temporary rate relief), as a prerequisite to equity financing. Still adhering to a 5.41 per cent return, the commission granted a temporary increase of $673,000 in revenues by a 2-to-1 decision on November 29, 1951. The proceedings leading to permanent rates are still pending. It is not hard to imagine how many stockholders of Public Service of New Hampshire must feel when it is realized that the stock was sold first to the public in 1946 at a price of 39 and has since sold as low as 21. The intermediate high has been about 29 compared with the current quotation of 25 bid, 26½ asked.

The Unregulated Investor's Choice

"WHILE *considering the practical problem of financing future utility industry expansion, one cardinal fact should be remembered. Investors obviously have complete freedom of choice as to whether to invest their savings in industrials or in utilities or some other media. Thus the utility companies must compete with all other business enterprises for the savings of the thrifty and convince investors that utility equities have definite long-term attraction compared with other common stocks."*

IN contrast to this dismal picture, one can turn to the experience of Kansas Power & Light Company when it requested on January 28, 1949, the right to impose a 10 per cent surcharge on virtually all electric rates. A hearing was held on March 4, 1949, and representatives from only two of some 200 communities were present. The story goes that when a misunderstanding was cleared up, these two departed. On March 16, 1949, an order (Docket No. 37,423-U) was issued permitting the 10 per cent surcharge to become effective from April 1, 1949, to December 31, 1951. The order included the following statement: "To assure applicant a favorable market for its securities it is necessary to permit applicant . . . (a) net return on its investment sufficient to attract investment capital." Again on the company's application, a hearing was held on October 1, 1951, at which only three communities intervened and on October 10, 1951, an order (Docket No. 42,478-U) was issued which was entirely satisfactory from the point of view of the company and its stockholders.

The Opportunity of the Regulatory Commissions

IT is not the purpose of this paper to attempt to analyze the reasons which have caused these very divergent regulatory atmospheres. The practical effect is that, so long as these situations continue on their respective planes, intelligent investors will be willing to provide all the equity capital that Kansas Power & Light may require and will shun all New Hampshire utility equities. Unless there is a radical change in New Hampshire regulation, it is entirely possible that equity capital may become so scarce that capital structures will deteriorate,

plant expansion will be curtailed, and power shortages may develop. The final result would probably be a movement for the state to take over the utilities, and another step towards Socialism, the twin sister of Communism, then would have taken place. Thus it is evident that utility regulatory commissions stand in a rather unique position. On one hand they have the opportunity of becoming one of the first bulwarks of our private enterprise system. On the other hand, they can join the movement towards Socialism.

It is not hard to demonstrate that a punitive type of regulation can boomerang on the commission and the companies involved, so that equity money costs more than it otherwise would.

Take, for instance, regulation in New York state under the Maltbie régime. The latter ended shortly after the decision of the appellate division of the supreme court of the state of New York, dated March 1, 1949, in the Rochester Gas & Electric Corporation application. To quote from this majority decision at page 11: The commission has "no power . . . to refuse to grant their consent to an approval of the issuance of any of such securities unless and until the petitioner (Rochester Gas & Electric) consents to change, modify, and charge off in its books of account any entries contained therein, or to establish reserves or special surplus accounts or restrict surplus or future income . . ."

NATURALLY investors tend to shy away from a state where regulatory powers have been exercised along these harsh lines. Such resentment is reflected in the low market valuations of the utility equities directly affected. To illustrate this point, it may be mentioned that New York State Electric & Gas common, the first major common equity financial operation involving a New York state utility in many years, was sold on March 18, 1949, to yield more than 7.75 per cent. On April 6, 1949, there was a public offering of Ohio Public Service Company common at a price to yield 7 per cent; notwithstanding the fact that it was a materially less desirable stock from a statistical point of view. The reason for the preference for Ohio Public Service was the more reasonable regulatory atmosphere in Ohio.

THREE other members of the New York commission followed ex-Chairman Maltbie into retirement so that the present commission in New York state is quite changed Since then there have been fairly numerous indications that security holders may now expect to receive reasonable and equitable regulatory treatment in New York state. Whether there has been a real change in attitude may be demonstrated in the commission's forthcoming order establishing permanent rates for Consolidated Edison of New York. If the present commission undertakes to correct the grossly inequitable treatment previously accorded the company's stockholders, utility equities of companies operating in New York state may well be in favorable demand once again. However, the inordinate delay in the issuance of this order is causing considerable concern. The hearings regarding perma-

nent rates for Consolidated Edison were concluded on March 27, 1950, and the decision has been awaited with increasing impatience ever since June 1, 1940.[8]

COMMISSION delays in reaching a decision are another source of irritation to investors in utility equities. The reason seems clear enough. In the case of a rate increase application during an inflationary period, the stockholder can be seriously hurt before relief is granted. Related to this factor of speed is one of procedure. Must the applicant be hurt before rate increases will be granted? If so, the informed equity investor will shun that jurisdiction.

Related to the factor of delay is the preference for equities of companies serving numerous small communities to the exclusion of large urban areas such as New York city, Philadelphia, Chicago, and Detroit. Doubtless this feeling arises, to some extent, from the fear that a rate increase application by a company serving such an urban area may be decided on the basis of political expediency instead of its merits. In such circumstances, the utility equity investor quite naturally demands a materially higher income return.

Disallowance of Expenses Cuts Investors' Return

THE utility equity investor resents any chiseling away of his claims on assets or on earnings. An example of the latter may be found in the relatively recent change by the California commission in determining allowable earnings. Formerly the allowable amount was 6 per cent on undepreciated plant account, less 3 per cent on the depreciation reserve. Now it is 6 per cent on the net plant account. Thus the earnings allowed to investors are being cut at a time when a higher return is actually needed.

Donations to charitable organizations frequently have not been allowed as an expense in rate-making proceedings. Do the commissions in such cases not realize that it is the duty of every public utility to be a good citizen in its territory? Among other things, this embraces adequate support of the local charitable undertakings such as the Community Fund, Red Cross, etc.

Until rather recently, commissions frequently disallowed the expense of amortizing the past service liability for pensions on the theory that present and future customers should not

[8] *News and Views for Stockholders*, June 15, 1950, page 3, Volume 2.

> "FOR *many years, regulatory commissions in general have been fully aware of the customers' point of view. The unions have seen to it that the employees have been well taken care of through increased wages and generous pension plans. The stockholder has had no one to plead his case adequately or too frequently such pleading has been ignored. Regulatory commissions may well ponder the fact that equity capital is inherently timid and naturally seeks a conducive regulatory climate.*"

bear the costs which should have been assessed against customers which used service in previous years. Where disallowed for rate-making purposes, all payments on pension plans ought to cease. This might well precipitate a strike which would amply demonstrate that all pension costs are a cost of rendering present and future service. Fortunately, most commissions are recognizing such costs due to the strong trend in that direction by all industry.

Regulatory Continuity Desirable

Continuity of both the commission members and staff is a favorable factor in some jurisdictions. Some commissions have a rapid turnover in membership which means that there is always a question as to whether previous policies will be continued or reversed. Generally speaking, how often do men come to a commission with a fully adequate background to perform their tasks in an informed way? A necessary "training period" always injects some doubts. As one surviving commissioner said following a shake-up, "You may not like some of the decisions which may come out of here, but we will shake down all right within a year."

One of the causes of the lack of continuity in some commissions may well be the poor compensation. The most recent handy source of information on this subject is *State Commission Jurisdiction and Regulation of Electric and Gas Utilities, 1948,* published by the Federal Power Commission. This tabulation showed that only four states (New York, New Jersey, California, and Pennsylvania) paid their commissioners $10,000 or more per year and the maximum was $16,500. The others were as follows:

Range in Compensation	*No. of Commissioners*
$9,000 to $9,999	4
8,000 to 8,999	1
7,000 to 7,999	6
6,000 to 6,999	9
5,000 to 5,999	6
4,000 to 4,999	5
3,000 to 3,999	1

In eleven cases, the chairman of the commission was paid somewhat more than a commissioner, the extra compensation ranging from $40 to $1,000 per year. Two states have one-man commissions (one is paid $5,000 and the other $7,500) and seven states had no commission.[3]

The above pay scale is patently inadequate to obtain and keep a high type of career man. The qualities which are required of a good commissioner are in great demand in industry. The pay scale should be such that a great personal sacrifice should not be required of an individual being considered for an opening in a commission. With adequate pay, there is a better chance of developing a continuity in the membership of commissions. Inadequate pay scales for the staff may cause an unhealthy turnover or retention of poorly qualified personel.

Above all, appointments[4] to commissions should be as far removed from politics as is humanly possible. Imagine how a utility investor regards a jurisdiction when he has had the experience of talking with

[3] Since then, two states have set up commissions; namely, Delaware and Florida.

[4] Based on 1948 information, members of 31 commissions are appointed, 9 are elected by voters, and 2 are elected by assemblies.

Rate Increases *versus* Adequate Return

"An *over-all return of about $6\frac{2}{3}$ per cent would appear reasonable under current conditions to attract the volume of equity capital necessary to provide the facilities to render the type of service to which customers have become accustomed. Fortunately, such a return would require only a relatively minor increase in rates.*"

a commissioner to have him say in exasperation after the fifth telephone interruption, "The dumb bunnies! You would think they would know that that would have to be cleared with the National Democratic Committee." Unable to answer certain policy questions, another commissioner was called in. After making some statements about a $4\frac{1}{2}$ per cent return being fair, they suggested that on my next visit I should call on a member of their staff.

Incidentally, all members of this commission have been replaced.

In a neighboring jurisdiction, an hour's conversation with three top staff members failed to bring out the basic regulatory policies of the commission. Since it was impossible to appraise the risk attached to an investment in that jurisdiction, it was entirely logical for the analyst to conclude that equity investments should not be made in that state.

Competition between Regulatory Commissions

For many years, regulatory commissions in general have been fully aware of the customers' point of view. The unions have seen to it that the employees have been well taken care of through increased wages and generous pension plans. The stockholder has had no one to plead his case adequately or too frequently such pleading has been ignored. Regulatory commissions may well ponder the fact that equity capital is inherently timid and naturally seeks a conducive regulatory climate. *There are 49 jurisdictions from which to pick and analysts select those jurisdictions where they have reason to expect that the companies will receive fair treatment!*

If commissioners only realized how carefully their opinions and orders are scrutinized in order to recognize desirable and undesirable attitudes. What are some of the things which

analysts look for in a decision? They closely examine the asset items and expense items which are disallowed. No analyst worthy of the title would take exception to the exclusion of any and all items which might properly be classified as plant adjustments (Account 107), but treatment of plant acquisition adjustments (Account 100.5) and charges for the amortization of such account are very revealing. Theoretically, both might be disallowed, both might be allowed or either one or the other might be allowed. Unless plant acquisition adjustments are allowed in the rate base and any amortization of such items is allowed as an operating expense, then a black mark is put against that commission.

Property held for future use is one of those items that frequently is tossed out in a far too cavalier fashion. When such property is put to active use, the rate base value in some states is the original cost to the company. On this basis, the stockholder loses both ways. Computations involved in the determination of working capital allowance frequently are so hypothetical that the results are ludicrous, except of course to the stockholders. Perhaps the practice which is most severely criticized is requiring a deduction from the rate base of an amount for depreciation far in excess of that which had been accumulated under the system of accounting previously required by the commission. This is particularly obnoxious to the stockholders when current depreciation charges are reduced because they are considered excessive due to the increase in depreciation reserve.

Management's Relations with Stockholders

Assuming that a commission operates under a law which has been interpreted by the courts as a fair value law and a series of decisions has been issued in which no weight has been given to values in excess of original cost, the responsibility for the stockholders not receiving the return to which they are entitled rests squarely on the managements of the companies affected. The duty of management, in addition to operating the properties with efficiency and foresight, requires the company to apply to the commission for adequate rates and, if fair rates are not granted by the commission, to press the matter to a conclusion in the courts.[5] It is elementary that a commission will seldom grant greater relief than the company applies for. Neither should the amount of increase be left to the discretion of the commission. Moreover, no commission likes to grant a rate increase application in its entirety. To do so, suggests to the uninformed that the commission is not performing its function creditably. To the extent that a company fails to apply for rates which will produce the return to which the stockholders are entitled, the stockholders have suffered an irreparable loss.

The burden, therefore, rests initially on the management to exhaust all available remedies in its efforts to obtain a fair return for stockholders.

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[5] Because of the need for speedy rate relief, some companies have been known to base their rate case on "original cost" even though the law provided for a "fair value" rate base. That is fine, provided the company immediately starts proceedings for a "fair value" return.

Should a company be frustrated in such efforts, then at least the stockholders would be fully informed and could take steps to protect themselves by selling. By this means the markets for such shares would sell off, adjusting to the unfavorable regulatory climate. As it is now, there has been accumulation of certain stocks, which currently are earning an inadequate return, on the premise that the inadequate return will be corrected. Neither the company nor the commission should be misled by the significance of many such purchases. It does not reflect a feeling of contentment on the part of stockholders, but rather a recognition of an unsatisfactory situation which should be corrected in the very near future.

MANAGEMENT sometimes advances an argument for delaying a rate increase application by saying that the present is an unfavorable time to file for a rate increase. Everyone will doubtless admit that there is no such thing as a "favorable time" for a rate increase. Certainly a rate case involves a tremendous amount of work and time to prepare adequately. Certainly it costs a lot of money, but in relation to total expense it is insignificant.

The argument has been advanced that some local public power problem makes it inadvisable to seek higher rates. One answer by investors to this line of reasoning is that if the price for winning the public power question is a completely inadequate return over a period of years, then the investor has lost in either event and, in the long run, so has the customer.

Managements would be well advised to examine their own achievements from a stockholder's point of view and make a careful survey of how they rank in the opinion of the informed investor. Such a survey is particularly important for a company which has not been in the equity market for a number of years. Some leading companies would be unpleasantly surprised.

More than one company is proud of the stability of its stock in the market. The trouble is that these stocks have seldom commanded a price in the market equal to the underlying book value. If the stock had a consistent record of selling at a material premium over the amount of the stockholders' claims, management might then take some credit for developing an incremental value in excess of the book value.

Again managements of utility companies are inclined to ask analysts whether they prefer a stock selling at a discount from book value to one selling at a material premium. The answer is that the stock selling at a discount probably has a greater potential appreciation but may be ma-

¶ "MANAGEMENT *sometimes advances an argument for delaying a rate increase application by saying that the present is an unfavorable time to file for a rate increase. Everyone will doubtless admit that there is no such thing as a 'favorable time' for a rate increase."*

terially less attractive ***unless management shortly will take the necessary steps to realize on the inherent potentialities;*** I.E., ***obtain a rate increase.***

Some companies state that their policy is to obtain an adequate return through operating economies rather than through rate increases. This, of course, is an admirable objective but, unfortunately for the stockholder, the time schedule for reaching the goal seems to be pushed constantly into the distance like a mirage.

Utility Investors Need a Cost-of-living Wage Increase

WHAT is it that the investor in utility equities wants? Stated simply, he wants a fair break—a reasonable cash return on his investment and sufficient amount of retained earnings to provide reasonable protection for the dividend, a margin to offset the dilution from issuance of additional stock, and a basis for expecting an increased dividend over a period of three years or so. In short, the owners of utility equities want and need a cost-of-living wage increase.

The equity holder has placed in the hands of management and subject to the regulatory powers of one or more commissions an amount equal to the book value of the stock and expects a fair cash dividend on this amount. Taking a list of 29 utility equities, the median relationship between dividend rate and book value was 7.4 per cent and the range was from 4.1 per cent to 11.9 per cent. In considering these figures it should be realized that (1) the take-home pay from such dividends (the argument which labor unions have used so effectively) is far smaller now than years ago due to the sharply higher Federal and state income taxes and (2) the purchasing power of such dividends has been approximately halved in the past decade. On the basis of a 25 per cent income tax, a 7.4 per cent gross return is equal to 5.55 per cent after taxes. Certainly such a wage for investors must be considered as minimum in view of the risks involved.[6] The companies on the list which fail by one-half per cent or more to pass this test are as follows:

Consolidated Natural Gas	4.1%
United Gas Improvement	4.6
Consolidated Edison	4.8
Brooklyn Union Gas	5.4
Detroit Edison	5.5
Commonwealth Edison	5.8
Middle South Utilities	6.1
American Natural Gas	6.2
Southern California Edison	6.5
Pacific Gas & Electric	6.5
American Telephone & Telegraph	6.5
Florida Power & Light	6.7
Rochester Gas & Electric	6.9

It is interesting to note that the worst offenders by this test include the large urban utilities and those

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[6] To quote from the 1946 "Report of the Committee on Valuation" by the National Association of Railroad and Utilities Commissioners at page 16:

> . . . An element of risk remains in a utility business even if the utility's capital investment is surrounded with safeguards and guaranties, as indicated above; even if operating expenses are fully allowed in the rates and made a first charge against gross revenues, and risk remains notwithstanding the fact that a utility operates either as a partial or complete monopoly.

Farther on it states:

> . . . The regulating commission is and should be prepared to recognize that element (risk) and make allowance for it in utility rates. Such allowance is made, of course, by the margin of the rate of return above the cost of money in the money market at the time of the rate inquiry or, expressed in legal language, the fair rate of return above the point of legal confiscation. We think that commissions should not be niggardly in allowing for this differential.

companies which have been closely regulated.

In addition to better "take-home pay," the investor should also have a sufficient return to afford the possibility of increased dividends over a period of three years or so. Take for instance a hypothetical company with a book value per share of $18.70. A 7.5 per cent dividend on this basis would be $1.40. Earnings of $2.30 per share, or 12.3 per cent on the common equity, would permit the reinvestment of 90 cents per share. In three years' time, the book value would be $21.40 and a 7.5 per cent dividend on this base would be $1.60 per share. The over-all return on the common on this basis would be about 12.3 per cent. Assuming a capital structure of 50 per cent debt, 15 per cent preferred, and 35 per cent common, the over-all rate of return would be about 6⅝ per cent, computed as follows:

	% of Capitalization	*Rate*	*Return*
Debt	50%	3.3%	1.65 %
Preferred ..	15	4.5	0.675
Common ...	35	12.3	4.31
			6.635%

An over-all return of about 6⅝ per cent would appear reasonable under current conditions to attract the volume of equity capital necessary to provide the facilities to render the type of service to which customers have become accustomed.

The Industry Needs an Average Increase of 10 Per Cent

Fortunately, such a return would require only a relatively minor increase in rates. Based on 1950 data, class A and B utilities earned about 5.86 per cent on their capitalization and surplus. Estimated data for 1951 suggest a decline in the return to about 5.55 per cent, reflecting an increase in capitalization and surplus of about $1.4 billion compared with an increase of about $21,000,000 in gross income. It is of prime importance to point out that the incremental income represented a return of about 1.5 per cent on the incremental investment. Assuming 52 per cent taxes, it would take an increase of less than 10 per cent in electric rates to produce an over-all return of 6⅝ per cent. A somewhat larger rate increase would be required by those companies which currently are earning below average returns. Such a rate increase is an exceedingly small price for the customer to pay for the best utility service in the world and the continuation of our private enterprise system.

Unfinished Business

"*The means for a cut in nondefense Federal expenditures is readily available. About 60 per cent of the Hoover report remains unimplemented. The Post Office remains in the red, there is still waste in administering veterans' insurance, a united medical and hospital service is still just a dream, and the Army Engineers and Interior Department are still fed expensively from the pork barrel.*"

—Editorial Statement,
Chicago Journal of Commerce.

The Utility Magazine Is Growing Up!

No longer is the utility employees' magazine a simple round-robin paper containing birthdays, wedding announcements, and bowling scores. There is an important function for the magazine to perform in present-day operations.

By JOHN E. BOULET*

TWENTY-FIVE-year men will remember well their company magazines of "the old days": they seemed to be designed for the entertainment of their readers. It wasn't unusual to see 20 of its 24 pages crammed with personal chitchat about employees and their families—off the job. But just as the 2 per cent income tax and the $500 Ford have faded into the past, that type of utility magazine is today becoming mere memory.

With each passing month, more and more space is being devoted to telling the company's story—its problems and policies, its relationship to the industry as a whole, and how these subjects affect employees. The reasons for the "new" company magazine are several.

First, employee relations people are asking the logical and legitimate question, "If the magazine's purpose is to show the employee that the company is interested in him, doesn't it make sense to point out the common interests of employee and the company, rather than to pretend an interest in what the employee is doing in off-the-job hours?" And added to that question is the fact that as electric companies have expanded and grown in the number of employees, the personal type of news is of interest to proportionately fewer and fewer people. Meanwhile, the cost of handling it has at least tripled.

SECONDLY, as the investment in the magazine has grown, management has reasoned, again very logically, that as long as the stockholders foot the bills, there is ample justification

*For personal note, see "Pages with the Editors."

for the magazine speaking in their interests. One of these interests is efficiency—high productivity—and it is a proven fact that the understanding employee is the co-operative one. He is the one who maintains a higher level of productivity than the employee who lacks understanding and interest in his job. And information breeds understanding.

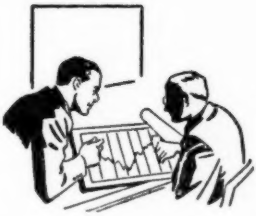
Finally, and perhaps most important of all, the urgent need for utilities, perhaps more than any other industry, to tell their story has been recognized. In this age of propaganda it has become necessary to support the capitalistic system against its attackers, so that neither the utility nor the system will founder on the rocks of misinformation, half-truths, or complete lack of information.

THESE reasons, then, have helped to resolve the question of whether or not the utility should present more information, of both noneconomic and economic nature, to its employees. The question no longer seems to be as much "Should we present it?" as "How can we best present it?" Implied in that question is one more, "Will our employees accept the information, or will it be labeled 'propaganda'?"

A Wisconsin utility man recently gave his answer to that question before a group of personnel people at a meeting in Dallas, Texas. He said that if management has shown that it is making a sincere effort to treat employees decently—through a program of honest and fair dealing, through the development of policies which guarantee each employee or group of employees equitable treatment compared with others, through the handling of grievances in a spirit of fairness, through the insistence that every supervisor carry out the program as conceived by top management — if management has done these things, then the chances are that employees will have developed a confidence in the integrity and honesty of management. As a result, they will be willing to listen to and accept management's viewpoint.

A REPORT on employee magazines by the Metropolitan Life Insurance Company, furthermore, states that economic information may be presented most successfully when it is closely related to the company's business. If this is true, and the experience of many companies indicates that it is, then there can be little basis for a "propaganda" charge. For there is no business in America where the knot of business problems is tied more tightly with the basic economic system than in the utility field. Nowhere is the presentation of economic information more natural. In this field, the threat of government encroachment, of Socialism, of an end to free enterprise, is not mere idle talk. It is an ogre, without a doubt, but it does not live in fairy tales. It threatens the industry, every day of the year.

This is not to say that expression of public relations problems as related to government encroachment does not bear a "fragile—handle with care" label. The approach to be used by every individual utility will be decided on the merits of its own peculiar problems, whether they involve water power, hydroelectric dams, irrigation and natural resources, rural electrification,



New Uses for the Utility Magazine

"The utility magazine is growing up. It is handling broader problems than ever before, and its success means more than ever before. In itself it cannot do the complete job of communication which utility management wants. But with its receptive audience and the active interest of management, it is a blue-chip investment. By doing its job well it can make an important contribution to the well-being of the employee, the company, and the industry."

or capacity for new industries. The problem is difficult, but the tie-in is there. It is a problem that can be solved, and is being solved, by utilities in every area.

Finally, the question of presenting information about the company, the industry, and their mutual problems to receptive minds is answered in the known attitudes of utility employees. A composite study of these attitudes shows that while employee tastes and desires may vary from area to area and of course from company to company, they generally want more information about their companies and their industry. They not only want it, but given the opportunity will ask for it.

The study was based on the opinions of 10,000 utility employees, and actually represents 34,000 because some of the surveys, made for individual companies in every section of the country, were scientific cross sections.

They were asked, "Does the company magazine say too much, not enough, or about the right amount about these things?" Nine subjects were listed. In every case except personals at least a third of the employees said, "The magazine does not say enough." At the head of the list was the subject, "How company is meeting the threat of government ownership": three of every five employees said "Not enough." And over half felt that the magazine did not say enough about relations with REA co-ops, employee benefit plans; the threat of government ownership; and how income is divided among employees, stockholders, and government.

A further check on their desires for information was made by asking them the broad question, "Are you given

enough information about these subjects?" and providing a check list of twenty-three subjects. The list included ten subjects about employee relations and thirteen about public relations. Employees were asked to check either "Have enough" or "Want more."

Half or more of the employees named nine subjects about which they want more information. The employee-relations information they asked for most concerned pay raise policy; promotions; transfers to other jobs in the company; and handling employee complaints. The public relations subjects they most wanted to know more about were the efforts of their companies to attract new industries to the area; the relations of their companies with REA co-ops; plans to increase operating facilities; community activities participated in by their companies; and relations with government agencies.

It would be amazing if employees were not strongly interested in the subjects that concern them personally. Indeed, it would indicate a serious weakness in our fundamental economic system if they did not show a selfish interest in what concerns them as individuals. What *is* startling to realize is that they are interested to practically the same degree in the problems of their company and the utility industry.

Thus, a situation may exist where management possesses information which it feels its employees need, and which the employees say they want. And here is the employee magazine. It can be a fifth wheel, an extra tail on the cat. Or it can be one of the best investments and valuable tools that the company has.

The magazine alone will not solve communications problems, but it can make other media more effective. And it can do a job even by itself. For surveys show that about 80 per cent of employees generally read all or most of the magazine. They show that as many as four of five families also read it when it is sent to the home. And they show that seven of eight utility employees, in the study already mentioned, talk to people other than their families or fellow employees about the company.

The magazine is the employee's link with the top, in a day when personal relationships too seldom go higher than his first-line supervisor. It is official; it talks for the company. Furthermore, it is "keepable": it can be referred to at his leisure—and absorbed by his family when he is finished with it.

Is it any wonder that so many companies are looking at it in a new light?

With the company magazine fitting into this concept of giving the employee more information about his company, it may be of value to examine the focal point of the magazine—the editor.

Management, as well as reader interest, may profit considerably by putting policies which concern the editor under a close examination.

In all likelihood the examination will show a craftsman who possesses a depth of practical and theoretical knowledge of the graphic arts. He knows layout and type faces, photography and engravings. He writes bright headlines and imaginative edi-

torials, culls exceptional material from other publications, and with the help of Rudolph Flesch and other specialists he writes clearly and succinctly—no simple feat.

But while the editor may be a proficient technical journalist, the new problems and new material to be handled in the magazine will present a real challenge to his intellect and his ingenuity. How well he is able to meet this challenge may depend to a great degree on management's understanding of his job and its willingness to give him the tools he needs.

His needs may revolve around three problems. The first is to understand the working parts of the whole: the practical functions of the departments and jobs within departments. The second is to understand top level policies with the reasons and philosophy behind them. The third is to understand the problems of the industry.

Seed cannot grow on bare rock, and if the editor is to tell the utility employee about the company, he needs to understand utility organization. While he cannot be expected to give an offhand technical explanation of why steam is condensed, he will find immeasurable value in knowing the coal to kilowatts cycle or the meaning of a tailboard conference. The magazine will reflect such honest familiarity in added flavor, new ideas, and stories from workers who ordinarily would not bother to put their stories into words.

To achieve more than a veneer of familiarity with what makes jobs tick takes time. Orientation courses are helpful to every employee, but perhaps most of all to those whose work will involve explaining the company and its problems to others. Special courses built on the basis of "one day in ten at operating levels," for a period of twelve to eighteen months can be practicable; and the results certainly will be worth while to both editor and management.

Secondly, management might consider the problem of keeping the editor himself posted on top level policies and programs. A specific time and place for liaison with particularly the employee relations and public relations departments, will help the editor to understand the relationship of the magazine to the entire communications program, and it will help management to get the full effect of its informational efforts. Many companies have found it valuable to establish an advisory board to the magazine which includes at least the directors of employee relations, public relations, and advertising. With such assists, the editor is kept informed of top management activities. When policy regarding a guaranteed annual wage is announced, for example, he will have a sound, usable background of information which will help him to carry management's story to its workers.

Close contact is valuable, further, because it makes long-range planning possible; the magazine can become a rifle to hit the target rather than a shotgun to spray it. With the help of his "advisers," the editor can determine immediate and long-range objectives, whether they are to promote safety, encourage suggestions, lower costs, improve morale, cut absenteeism, or explain free enterprise.

FINALLY, in re-examining the position of the editor, it will be worth while to consider his need for information about the problems of the entire utility industry. A wealth of such information is available from the industry's Public Information Program, the Electric Companies Advertising Program, the Edison Electric Institute, and the National Association of Electric Companies. These organizations serve the electric industry; there are similar groups working for the benefit of other utility companies. In addition, the industry's magazines publish articles and an exchange of ideas by leaders in the editor's and allied fields. There are also specialized information services which are used by the public relations and employee relations departments. It may be well to ask if the editor is on the circulation lists for this information—and if his time schedule includes the opportunity for such valuable research.

Akin to the organizations and services within his own industry are those of his own profession. Over 3,000 editors, for example, belong to the International Council of Industrial Editors. Membership in his local chapter will stimulate the utility editor and present opportunities for strengthening his own magazine through the experiences of others.

In so considering the problems of the editor, and gauging the amount of help he needs, management will get more than an effective magazine. It will provide itself with a highly competent communications man—a man who will be capable of making a profession of editing the magazine, or stepping into other positions for which he will be soundly trained.

THE utility magazine is growing up. It is handling broader problems than ever before, and its success means more than ever before. In itself it cannot do the complete job of communication which utility management wants. But with its receptive audience and the active interest of management, it is a blue-chip investment.

By doing its job well it can make an important contribution to the well-being of the employee, the company, and the industry.

Murder in the Plant

THE U. S. Department of Labor has recently completed a survey of the most common types of horseplay which result in serious injuries. Here is a list of seven kinds of horseplay:

1. *Pulling a bench out from under a worker.*
2. *Throwing pop bottles.*
3. *Throwing an oily rag into the face of a worker carrying a box of materials.*
4. *Wiring a lunch box so it produces a shock when the employee opens it.*
5. *Giving fellow workers the well-known hotfoot or hot seat.*
6. *Applying the air hose to a worker's skin or seat of his pants.*
7. *Pushing a worker's head while he is bending down for a drink of water.*

Washington and the Utilities

Utilities—Interested Spectators At the Steel Seizure Scrap

ASIDE from the practical question of whether all the hectic developments, in and out of court, will keep the steel mills going, public utility industries throughout the nation can well afford to pull up a chair and watch closely. From the standpoint of legal tactics, it was most fortunate for these utilities that the showdown on the abstract issue of the government's power to seize the steel mills should be tested in a nonutility industrial field.

Utility lawyers are generally agreed that if the government can seize the steel industry to avoid a work stoppage affecting the security of the nation, it could do likewise in the case of a threatened utility work stoppage of any serious proportion. And with both a telephone and a telegraph strike going on at the time the steel crisis broke loose, it is recognized that the original test case could just as easily have happened in the field of public utilities and then later applied to steel.

In fact, some government attorneys are wondering why the administration tacticians could not somehow have arranged to have things happen just that way. They argue that a lot of people in this country somehow have a feeling that public utilities are *quasi* government functions anyhow, and that government seizure might be more easily justified and less unpopular than the steel seizure. Perhaps the bungling of the steel wage controversy at the Wage Stabilization Board level left the administration no chance to pick its theater of operations, legal or otherwise.

There was little opportunity for the subtle touch in the wake of Mobilization Director Wilson's stormy departure and the steel industry's denunciation of the WSB order as a virtual "giveaway-program." But the fact remains, if the government had seized the telephone industry first and won some sort of justification from the courts—by very reason of the fact that a public utility operation was involved—the government would certainly have been in a much better legal position to take over the steel mills.

JUST the reverse happened, however, when U. S. District Court Judge David A. Pine handed down his forthright decision blasting the government's constitutional position in the steel case. Judge Pine's grand-slam opinion can and probably will be whittled down in the appellate courts. But it puts the burden for making haste in carrying the appeals on the Federal government. And what is of chief interest to the public utilities is that it will be a very choice precedent against government seizure of any kind of private industry, in the absence of statutory authority to do so, if the main point of Pine's ruling is finally upheld in the steel case.

Thus, it is the public utilities which are now in a better legal position, even though there is still a chance that some future court might attempt to differentiate between seizure of nonutility industries and the seizure of public utilities. Pine's opinion, on its face, left no ground for such a distinction in the future. According to the District of Columbia jurist, the government has no inherent powers of seizure not authorized by written law. And there is no written law at

present authorizing the Federal government to seize any other public utility and operate it, except in the case of the railroads which have been operated under a special war power statute (recently continued by congressional act) since August, 1950. Thus, public utilities apparently stand in the same legal position as the steel companies.

More Work for DEPA, PAD, NPA?

ANOTHER possible outcome of the steel seizure may be over the effect on material controls now being exercised for public utilities by the various claimant agencies under the Defense Production Administration. Until the steel mills stopped producing in the wake of the Pine decision, there had been some hope, if not good reason to expect, that the National Production Authority and the other claimant agencies would be permitted to ease up on the control of such materials as steel and copper and aluminum.

But if steel production is stopped for any appreciable length of time—certainly if the ovens are cool for a month—steel production and stockpiles will be so far behind schedule that strict material controls will have to be continued for an indefinite period—probably for the rest of this year. That is what officials at NPA were saying privately, although nobody naturally was sticking his neck out so long as there was some question whether the strike was on or off. And with courts slamming the doors after the strikers and the government attorneys opening them again, nobody knew from day to day whether the ovens were going to be hot or cold, or for how long.

While the aluminum supply is a lot brighter than it was six months ago, the prospect of a copper shortage remained—strikes or no strikes. DPA Administrator Fleischmann said he expected copper to remain short for two years. So that if steel now comes once more in critically short supply, the fact that aluminum is easier would not help very much. Steel is the main control item in building and new plant construction, including a lot of power plants that were supposed to be going on the line some time next year.

The Utilities and OPS

ANOTHER area of possible controversy between the Federal government and the utilities may soon flare up again, following the departure of former Price Stabilizer Michael V. DiSalle. It will be recalled that DiSalle last January quieted congressional criticism with a letter to Chairman Maybank (Democrat, South Carolina) of the Senate Banking Committee, virtually pledging that OPS would not get into utility rate cases not involving wholesale service, unless there were special circumstances threatening the whole stabilization program. Up until May 1st, there had been no new interventions by OPS in rate cases which are not concerned with the sale of utility service for resale to the public. But the departure of DiSalle has caused renewed agitation, especially among OPS local aides on the West coast, according to word coming into Washington from that quarter.

It seems some local OPS officials now want authority to get into all kinds of utility rate cases without clearance through Washington headquarters. The OPS in Washington has been keeping the terms of DiSalle's letter to Congress. There are some broad hints that politics may be involved. The West coast OPS regional officials, taking their cue from top level administration speeches blasting the utilities every so often, seem to think that stirring up utility rate issues may be good campaign politics. They would like to get into various utility rate cases which have nothing to do with wholesale utility service. This activity would be justified by the "consent" of the regulatory commissions hearing the cases. The local OPS people know that most commissions would not actually exclude them from rate case participation.

THE new Director, Ellis Arnall, may personally have to settle this ques-

tion one way or the other. Although it would seem a poor time for OPS to be embarking on such a controversial course (when Congress is already considering dropping or trimming OPS authority over prices in the next Defense Production Act), some of the OPS people apparently feel that the stakes are worth the risk. They point out privately that OPS is not in good standing with Congress anyhow, so that more utility rate case activity would not make very much difference.

Natural Gas Developments

Now it seems fairly certain that the Federal Power Commission will appeal the recent court decision setting aside (pending further hearing) FPC's order dividing the New England gas market between two rival pipelines. The Third U. S. Circuit Court of Appeals granted Algonquin Gas Transmission Company a stay until May 19th in order to allow Algonquin (one of the rivals) time to prepare additional evidence.

FPC is expected to ask first for a rehearing of the decision, which is the usual preliminary to seeking a review by the U. S. Supreme Court. FPC lawyers apparently feel they have a chance to get a reversal of the appellate court decision. If it does not turn out that way, FPC still has authority to consider the controversy again in the hearings which it was directed to hold by the appellate court. The FPC could again reach the same conclusion about dividing the New England area.

The Washington Gas Light Company, serving the nation's capital, is the first gas utility to seek complete exemption from the space-heating service restrictions ordered in effect last year by the Petroleum Administration for Defense. Under this PAD Order No. 2, gas utilities in the so-called "Appalachian area" were not permitted to take on new space-heating customers beyond certain minimum limitations. But the way was left open for qualifications and exemptions under special local circumstances.

The Washington Gas Light Company's application for a blanket exemption was turned down. But at the same time PAD agreed to allow the utility to add 3,450 new gas-heating customers in the District of Columbia. This is believed sufficient to take care of nearly all requests for new service.

It seems that PAD wants to hold the reins of service restriction control over the natural gas companies a while longer. This is indicated by the large number of new customer connections authorized for the Washington, D. C., utility.

Daniel W. Knowlton Retires

Washington's considerable corps of regulatory specialists will soon be without one of its shining lights for many years, as the result of retirement of Daniel W. Knowlton, chief counsel of the Interstate Commerce Commission since 1928. Knowlton, a Harvard graduate (AB, '03), was admitted to the New York bar in 1907. He started into practice in Colorado Springs in 1910 developing one of the pioneer regulatory law firms in the United States. One of his former partners is now Senator from New Jersey, Alexander Smith. After military service in World War I, Knowlton entered the regulatory field in 1922 as chairman of the Board of Referees to determine compensation for railroads during Federal seizure. Since 1928 he has continuously held the post of chief counsel for the ICC—a tenure of nearly a quarter of a century, which made him dean of regulatory commission counsel in Washington.

Quite an impressive ceremony was held by the ICC on April 30th, marking Knowlton's retirement, with congratulatory speeches by Commissioners Aitchison, Lee, and others.

His successor is E. M. Reidy, who has been associate chief counsel for the ICC for the past three years. Reidy, a native of Massachusetts and a law graduate of Georgetown University, joined the ICC's legal staff the same year, 1928, that his predecessor became chief counsel.

Exchange Calls And Gossip

Utility Engineers' Conference

THE thirtieth annual conference of utility commission engineers was held in Washington, D. C., the latter part of April. Of particular interest to the telephone industry were addresses dealing with the financial problems of small utilities and the future of the small telephone company. William A. Roby, supervising engineer for the Indiana commission, told his audience that if the small telephone company is to maintain its existence, "it must become part of a large organization that can keep the exchange in operation, furnish money when needed, secure equitable rates, and have employees available for transfer whenever vacancies or troubles occur." The small independent that is solvent, well-managed, and giving its customers adequate service is an exception, Roby declared. "Individual or family ownership is on the way out as a natural evolution of this type of business," he added, as in the case of power companies, railroads, local grocery stores, and gasoline filling stations.

Mr. Roby pointed to the slower progress being made in the modernization of the independent telephone company's plant than in Bell system companies. He noted that Bell companies are now 77 per cent dial in their local service, in some states almost 100 per cent, while the independent portion of the industry is less than 40 per cent dial. Of the 5,500 independents, he remarked, 80 per cent operate 1,000 telephones or less and many of them still retain the magneto-type plant which Roby characterized as "horse and buggy" stuff and wholly inadequate to meet present demands for telephone service. Conversion to dial, he stressed, is an "urgent requirement." The Indiana commission engineer suggested that state commissions encourage the integration of small independent units into units of 5,000 telephones or more. He added that in his opinion small independents ought to have a higher rate of return than larger system companies.

RALPH G. STARKE, of the Berkshire Life Insurance Company, of Pittsfield, Massachusetts, urged more co-operation between insurance companies and state commissions in the examination of the financial situations of telephone companies and other utilities. Such plans of co-operation, he stated, can go a long way toward easing the problems of financing small utilities.

The conference also heard Vern W. Chase, telephone engineer for the North Carolina Utilities Commission, praise Southern Bell Telephone Company's development of extended area telephone service in his state. He emphasized the advantages of this type of service and said the feeling of his commission is that "the trend of the times will be in increased requirements for it." Where it is practical and feasible, he predicted, non-optional extended area service will in the near future be introduced in all North Carolina exchanges.

Mr. Chase reported that customer opinion of extended area service was most favorable. He declared that "experience clearly shows many customers will gladly pay an extended area rate substantially higher than the former local rate plus former toll charges to obtain freedom of use with extended service."

Although Southern Bell has plans for increasing the number of its exchanges

which now have this service, Chase said the limited supply of material and equipment and the present heavy demand for service must be given consideration and that facilities needed for extended area service must not be allowed to deplete too drastically the available supply of materials.

REA Shifts Emphasis to Telephone Loans

THE Rural Electrification Administration is planning a major switch in its program. Instead of concentrating on loans for the purpose of getting electric power to the nation's farms, it will now put its emphasis on supplying them with telephones.

Apparently feeling that most of its job of providing the means for electrifying farms is done, REA announced that it will reorganize "in order to meet the needs of the rapidly expanding telephone program and to take better advantage of the increasing experience and stability that the electric borrowers have acquired." REA officials said that over 4,450,000 of the country's 5,250,000 farms now have electricity, while less than 40 per cent of them have telephones.

Principal feature of the reorganization plan, effective July 1st, is an increase of the telephone staff by 50 per cent, through shifting personnel out of the electrification program. Two new telephone divisions are being set up—a telephone loans division and a telephone engineering division. The telephone loans division will be responsible for loan study and development work, as well as management assistance for the telephone program. It will make recommendations to the Administrator on telephone loan applications. The telephone engineering division will be responsible for such activities as pre-loan engineering, construction engineering and technical operations, and maintenance advisory service to borrowers. Richard A. Dell will head of the new loans division, and K. W. Benckert will become acting chief of the engineering division.

REA has $100,000,000 in lending authority and $75,000,000 in reserve for electric power loans, and wants to keep this authority unimpaired. If the Senate makes no changes in REA appropriations for fiscal 1953, already approved by the House, REA will have $25,000,000 in telephone loan authority which is one-half the new lending authority for rural electrification loans—the first time the telephone program has approached such a comparative position. REA officials indicated they would like to see telephone lending authority boosted to $50,000,000.

The new arrangement will also establish a streamlined organization for handling the electric program. There will be five electric distributing area offices to provide a single organization to work with distribution borrowers in developing plans and in providing whatever technical REA assistance is needed.

REA is also taking steps to establish more effective staff work. While four staff divisions remain unchanged—technical standards, personnel, information services, and administrative services—three new divisions have been set up—a controller's division, an engineering division, and an operations division. These new divisions, along with the existing staff divisions, will service the five area offices, the power division, and the two telephone divisions. They will be responsible in their respective fields for the development of program policies, plans, and procedures, for technical advice to the line divisions, and for field assistance when requested and available.

End of Copper Controls Seen in Two Years

RESTRICTIONS on the use of copper, steel, and aluminum may be lifted in a little more than two years, according to Defense Production Administrator Manly Fleischmann. Although Fleischmann did not minimize the seriousness of the present copper shortage, which he said is "very bad," he stated there are reasons to believe that the situation will

be substantially improved in 1954. The outlook is not quite so bright for supplies of alloying materials, particularly nickel. Fleischmann told the Armed Forces Communications Association in Philadelphia that available stockpiles of the alloying metals—columbium, cobalt, tungsten, and nickle—would be rapidly depleted in the event of an all-out war, which means that stockpiling of these materials must be accelerated. He predicted strict controls on these materials for five to ten years.

Fleischmann denied that there is a "glut" of aluminum but admitted that expanding aluminum production has done much to alleviate shortages of this metal.

Although the National Production Authority does not see any indication of a decontrol of any materials this year, further relaxation of controls is expected. Evidence of this could be seen in the increased allocations given the communications industry for the third quarter of 1952. Copper, steel, and aluminum allotments are the largest since controls were put into effect in July, 1951.

Connecticut Ruling

CONNECTICUT'S public utilities commission has ruled that a telephone company may terminate service to a subscriber when advised by a bona fide law enforcement agency that the subscriber is using the service illegally. The commission further held that arrest and conviction are not necessary to give the telephone company sufficient right to terminate the service.

Southern New England Telephone Company removed a telephone from a cigar store after Hartford police had charged the owner with booking horse race bets. The police recommended removal of the telephone. The owner appealed to the public utilities commission that the company's action "deprived him of his rights, without trial or evidence." The commission did not go into the question of guilt but merely ruled that the company's standards for terminating service were reasonable since it had acted on the advice of a law enforcement agency.

The company's tariff provisions filed with the commission provide that "service is furnished subject to the condition that it will not be used for any unlawful purposes. Service will not be furnished if such service is being used in violation of law." The commission found this provision reasonable and noted that the company had not acted until receiving the advice of the state's attorney general.

Is Telegraph Socialism's Target?

THERE are some observers of the prolonged telegraph strike who believe that a great deal more is involved than a mere wage dispute between Western Union and its employees. The company had declared that it cannot raise rates enough to cover the cost of a wage increase and still remain in competition with the telephone and air mail. But it is being pointed out editorially in the newspapers that even if the company and the union reach a mutually satisfactory agreement, the basic difficulties in which Western Union finds itself would not be eliminated. The net result of taxes imposed upon the company during World War II, the government's refusal to grant rate relief, and its insistence on wage increases for Western Union's employees, has been to maneuver the company into a series of losing years.

But more significant from the company's point of view was the government's establishment of its own telegraph business, tax-free and tax-supported, which has grown to immense proportions under the direction of the General Services Administration. What started out to be a temporary government service for a wartime agency, handled in 1951 a telegraph volume of 84,000,000 words, three times as much as in 1949.

The telegraph is the only utility in the country owned by a single company. The possibility that it may be No. 1 on a list of other private enterprise utilities marked for Federal control cannot be entirely ignored.

Financial News and Comment

BY OWEN ELY

The "Attrition" Factor In Utility Earnings

IT is generally realized that utility construction and equipment costs have nearly doubled in the past decade. The index (based on 1911 as 100 per cent) prepared by Whitman, Requardt & Associates of Baltimore, using a composite of over 50 material and labor items, makes the following comparison over the past decade:

Division Of U.S.	*Jan. 1, 1943*	*Jan. 1, 1952*	*% Increase*
North Atlantic .	250	472	90%
South Atlantic .	267	494	86
North Central .	238	446	87
South Central .	247	458	86
Plateau	236	447	90
Pacific	242	454	88
Average (unweighted)			88%

While this "inflationary" factor has been recognized by some of the commissions, notably the New York Public Service Commission, no very scientific method of dealing with it has been worked out in regulatory circles. It is important because it affects several income items, particularly property taxes, depreciation, and cost of financing. One reason why it has not received more attention is that the effects have been partially offset by the increased efficiency of new generating units and other equipment and the reduced number of man-hours per unit of output. Nevertheless it is important for the state commissions to recognize this burden on the utilities and to develop a policy to meet it.

IN a recent rate case, Public Service Company of New Hampshire presented a chart (which we reproduce on page 703) to illustrate the effect of inflation upon net plant and net operating income. Thus net operating income in 1951 included an estimated $273,000, representing the adverse effects on earnings of the "inflationary spread" of about $12,400,000 in plant account. Obviously, the adjustment does not include cost of financing, since this is taken care of in the adjusted fair return on the rate base containing the high-cost components. It does, however, point up the necessity for

DEPARTMENT INDEX

more liberal treatment by commissions in order to recognize the adverse effects on rate of return of this attrition factor. Otherwise rates may have to be continually revised in order to catch up with this adverse effect.

ANOTHER important industry phase of this problem is the need to build up or maintain adequate depreciation reserves. During the period 1940-50 total utility plant of privately owned class "A" and "B" electric utilities increased nearly 50 per cent, while the aggregate reserve for depreciation and amortization increased 130 per cent. But recently these trends have been reversed. Thus in the year 1950 plant account increased nearly 10 per cent while depreciation reserve increased only 8 per cent. Complete figures are not yet available for the year 1951, but the monthly FPC earnings bulletin for January, 1952, shows that electric utility plant increased 9.4 per cent and the reserve only 8.4 per cent. Accruals to the reserve (in expenses) for that month were 8.3 per cent over the previous year. Thus the ratio of depreciation reserve to plant account is now slowly declining, and this trend will be accelerated if and when any substantial amount of obsolete generating equipment is abandoned and written off the books. This might occur during some future depression when surplus capacity might be so ample that commissions might require the oldest equipment to be retired from service and taken out of the rate base.

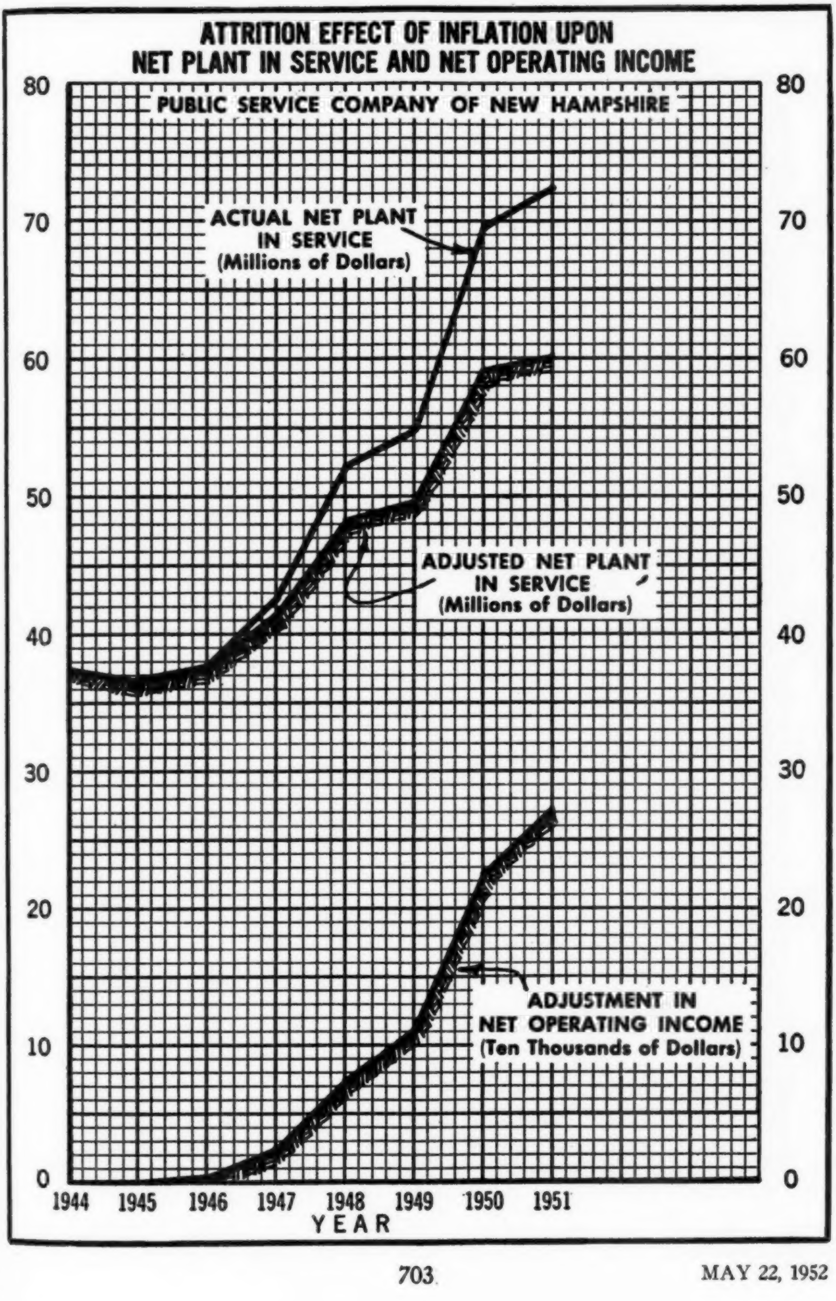
IT is important, therefore, to study current depreciation ratios. The old "rule of thumb" ratio (15 per cent of revenues for maintenance and depreciation) may no longer be so valid as in former years. In this connection it is necessary to study the cost of the latest generating equipment on the books as compared with the oldest, and also the relative generating efficiency. In other words, operating savings should be matched against the higher cost of property taxes, depreciation, and cost of capital, and the net result would be the increased net cost of new equipment on a *productivity* basis. Then depreciation accruals can properly be adjusted to preserve the *operating integrity* of the plant account.

It is obvious that no "rule of thumb" statistics can be worked out since the situation confronting each individual utility company may differ from the average. Some may have some extremely old and inefficient equipment in the rate base (as being needed for occasional stand-by use), while others may have practically rebuilt generating plant over the past decade. Unless the depreciation policy is studied every year or so, it

*UTILITY NEW MONEY FINANCING
(In Millions)

	April	*Jan.-April*	*% Increase Over 1951*
Electric Utilities			
Bonds	$107	$435	21%
Preferred	10	71	184%
Common	67	140	D1%
	$184	$646	19%
Gas Utilities			
Bonds	$ 63	$174	61%
Preferred	—	28	366%
Common	16	32	D25%
	$ 79	$234	49%
Total Electric and Gas	$263	$880	26%

D—Decrease. *As compiled by the Irving Trust Company.


ATTRITION EFFECT OF INFLATION UPON
NET PLANT IN SERVICE AND NET OPERATING INCOME
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
ACTUAL NET PLANT IN SERVICE (Millions of Dollars)
ADJUSTED NET PLANT IN SERVICE (Millions of Dollars)
ADJUSTMENT IN NET OPERATING INCOME (Ten Thousands of Dollars)
80
70
60
50
40
30
20
10
0
1944
1945
1946
1947
1948
1949
1950
1951
YEAR

would be safer to make allowance in accruals for a continued inflationary trend, just as construction engineers allow for extra strain in their calculations of the strength of a bridge.

Based on present bookkeeping the traditional 6 per cent return may prove to be too low, since current earnings may be overstated if the depreciation accrual is inadequate. However, it is also important not to go to the other extreme and increase reserves too fast since then the rate base would be arbitrarily reduced and the return on the rate base in future years would thus be lowered. The adequacy of the reserve must be studied in the light of such factors as average age of equipment, proposed rate of replacement in future years, etc. The individual company should be able to budget its depreciation needs for a few years ahead in the same way it now attempts to budget its construction program, the cash flow, the amount of capital which will have to be raised, the anticipated earnings, etc. Such a scientific study is required to protect the interests of investors as well as those of consumers, particularly during a period of rapid change such as at present.

For some electric utility companies the problem will be complicated by accelerated amortization of defense plant facilities. In fact such excess depreciation might tend to "balance the books" for the industry as a whole over the coming five years, if the *reported* figures should include the accelerated amortization—but due to our system of double bookkeeping, this may only be the case for part of the industry. In any event, some companies will not be affected at all, and others in widely varying degree. This is merely an additional factor in the formula which each company should work out for itself.

There is also the question as to the best *method* of accruing depreciation charges—straight line, sinking fund, etc. The sinking-fund method would impose a much lighter burden on earnings at this time since a substantial part of plant has been installed recently, and initial contributions to the reserve would be smaller under this method. Of course the heavier depreciation burden during the earlier years of new plant will provide greater protection for *future* stockholders; but these stockholders may be different individuals than the present ones, and it should be a joint aim of management and regulatory authorities to spread both burdens and benefits evenly, so that one generation of stockholders will not benefit unduly at the expense of another. If current depreciation accruals were reduced substantially through use of the sinking-fund method, with resulting increase in net operating income, this might result in rate reductions in some cases—but there are many companies now earning less than 6 per cent on the rate base whose stockholders

CURRENT YIELD YARDSTICKS

		1951-52 Range		1950 Range	
	Recent	*High*	*Low*	*High*	*Low*
U. S. Long-term Bonds—Taxable	2.59%	2.75%	2.39%	2.42%	2.15%
Utility Bonds—Aaa	2.96	3.09	2.64	2.69	2.55
—Aa	3.02	3.18	2.70	2.74	2.63
—A	3.21	3.32	2.82	2.87	2.75
—Baa	3.55	3.58	3.21	3.21	3.14
Utility Preferred Stocks—High-grade	3.99	4.25	3.77	3.82	3.70
—Medium-grade	4.40	4.71	4.19	4.25	4.13
Utility Common Stocks	5.41	6.11	5.26	6.43	5.31

Latest available Moody indices are used for utility bonds and preferred stocks; Standard & Poor's indices for government bonds and utility common stocks.

PUBLIC OFFERINGS OF ELECTRIC AND GAS UTILITY SECURITIES

February 11, 1952, to April 30, 1952

Date	*Amount Mill.*	*Description*	*Price To Public*	*Under-writing Spread*	*Offer-ing Yield**	*Moody Rating*
		Mortgage Bonds & Debentures				
2/28	$ 4.0	Central Ill. E. & G. 1st S. F. 3½'s 1982	101.87	1.37	3.40%	A
3/12	20.0	Illinois Power 1st S. F. 3½'s 1982	102.25	.60	3.38	A
3/12	12.5	Pacific P. & L. 1st S. F. 3⅝'s 1982	100.45	.80	3.60	Baa
3/14	10.0	Central P. & L. 1st S. F. 3½'s 1982	102.44	.64	3.37	A
3/14	7.8	Metropolitan Ed. 1st S. F. 3¼'s 1982 ..	100.96	.45	3.20	Aa
3/14	15.0	Potomac Elec. Pwr. 1st 3¼'s 1987	100.84	.60	3.21	Aa
3/19	55.0	Pacific G. & E. 1st S. F. 3⅜'s 1985	101.92	.76	3.28	Aa
3/20	6.0	Southwestern G. & E. 1st S. F. 3⅜'s 1982	100.75	.52	3.34	A
3/21	7.5	Narragansett El. 1st S. F. 3⅜'s 1982 ..	102.38	.30	3.25	Aa
3/26	50.0	Consolidated Ed. 1st & Ref. 3⅜'s 1982 .	102.38	.62	3.25	Aa
3/26	12.0	Oklahoma G. & E. 1st S. F. 3⅜'s 1982 ..	101.42	.54	3.30	A
3/26	30.0	So. Calif. Gas 1st S. F. 3½'s 1982	101.50	.90	3.42	A
4/2	12.0	San Diego G. & E. 1st 3¼'s 1982	101.75	.56	3.16	Aa
4/2	14.0	Texas P. & L. 1st S. F. 3¼'s 1982	101.25	.54	3.19	Aa
4/2	5.0	Texas P. & L. Deb. S. F. 3⅜'s 1977 ...	101.25	.72	3.30	A
4/3	12.0	West Penn Pwr. 1st S. F. 3¼'s 1982	101.93	.54	3.15	Aa
4/4	2.0	Interstate Power 1st S. F. 3½'s 1982 ..	101.68	.77	3.41	Baa
4/14	25.0	Consumers Pwr. 1st S. F. 3¼'s 1987 ..	102.97	.58	3.11	Aa
4/17	60.0	Columbia Gas Deb. S. F. 3⅜'s 1977 ..	100.93	.75	3.32	A
4/17	7.0	Wisconsin P. & L. 1st S. F. 3¼'s 1982 .	100.76	.59	3.21	A
4/24	12.0	Alabama Power 1st S. F. 3⅜'s 1982	102.75	.55	3.23	A
		Preferred Stocks				
2/28	5.0	Delaware P. & L. $4.56 ($100)	103.64	1.93	4.40	
3/4	10.0	Illinois Power 4.70% ($50)	51.00	1.00	4.61	
3/5	10.0	El Paso Natural Gas 5.36% ($100) ...	100.00	3.00	5.36	
3/5	10.0	El Paso Nat. Gas $4.40 Conv. (a)	100.00	na	4.40	
3/6	6.0	Rochester G. & E. 4.75% ($100)	100.00	2.15	4.75	
3/13	4.0	Metropolitan Ed. 4.45% ($100)	102.25	2.10	4.35	
3/13	15.0	Ohio Edison 4.56% ($100)	102.38	2.20	4.45	
4/7	1.5	Wisconsin P. & L. 4.80% ($100)	101.50	na	4.73	*Earnings-Price Ratio*
		Common Stocks—Subscription Rights				
2/4	1.5	Kansas-Nebraska Nat. Gas	20.00	na†	8.00	8.6%
2/4	4.4	Southwestern Public Service	17.50	na	6.40	7.4
2/5	.5	Maine Pub. Service	15.25	na	7.86	9.1
2/11	1.2	Central Ill. E. & G.	20.00	na#	6.50	10.6
3/1	.3	Arkansas-Missouri Power	13.25	na†	7.55	9.9
3/6	.3	Colorado Central Power	15.75	na†	6.34	7.8
3/6	13.2	Texas Utilities	32.50	.20	5.17	7.7
3/13	10.4	Texas Eastern Trans.	17.00	.30	5.88	9.4
4/7	4.9	Wisconsin P. & L.	17.15	na	6.53	9.4
4/8	3.0	Interstate Power	8.65	.14	6.94	8.0
4/15	6.8	Indianapolis P. & L.	34.75	.30	5.75	8.4
4/16	4.0	South Carolina E. & G.	9.63	na	6.23	4.9
		Common Stocks—Other New Money Sales				
3/20	13.2	Middle South Util.	21.95	.47	5.46	8.3
3/26	5.1	Arizona Public Service	12.75	.65	6.27	7.9
4/1	7.0	Portland G. & E.	27.75	1.25	6.49	8.0
4/16	17.2	Southern Calif. Ed.	34.00	1.10	5.88	7.3
4/17	7.0	Carolina P. & L.	35.13	1.30	5.69	7.9
4/23	5.0	Gulf States Util.	22.00	1.13	5.45	6.9
4/23	3.7	Tucson G. E. L. & P.	26.50	1.35	6.03	9.0

*Yield to maturity on bonds. †Not underwritten, gross spread would include only company expense. #Not underwritten, but concession to dealers through dealer-manager. na—Not available. (a) Convertible into common at 36½ to 6/30/57 and at 38½ to 6/30/62.

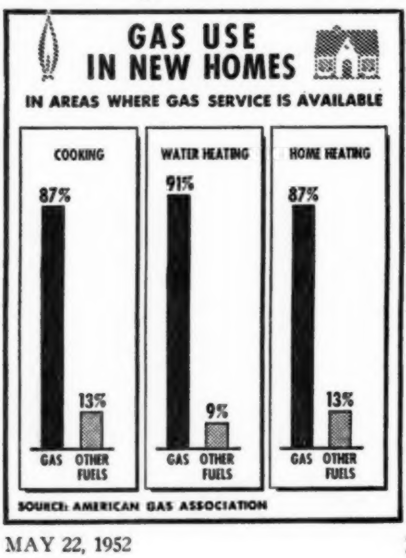
would benefit at this particular time.

HOWEVER, under pressure from the Washington commissions, the straight-line method is now so largely in use that it seems doubtful whether the trend towards this method could be easily reversed in favor of the sinking-fund plan, even if regulatory philosophy at Washington should "turn to the right" under a new administration.

Obviously, the depreciation question has many angles, some of which may be mutually contradictory so far as effects are concerned. There seems little doubt, however, that these questions deserve greater study than is currently being given to them, in order to protect both present and future security holders, as well as the consumer—though his interests usually get a prior claim on the attention of the regulators.

A High Equity Ratio Requires A Higher Rate of Return On the Rate Base

SOUTHERN COUNTIES GAS COMPANY of California has asked the supreme court of that state to review the rate decision of the public utilities commission



dated January 22nd, which denied the company's application for an increase in gas rates of $3,390,000. In its brief, the company contended that the commission had allowed it earnings equivalent to only a 5.15 per cent return on a depreciated original cost rate base—said to be the lowest imposed upon any comparable California utility. It reminded the court that the United States Supreme Court has set up a standard that requires earnings, above reasonable basic operating expenses, sufficient (1) to service the company's debt and (2) to afford to its "equity owner" a sum which will be: (a) commensurate with returns on investments in other enterprises having corresponding risks; and (b) sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.

The brief stated:

> Although the commission's disallowance of the described gas costs and of a large element of necessary materials and supplies thus makes the confiscation more acute, the 5.8 per cent rate of return fixed by the commission upon its adopted rate base produces an end result which, in itself, is erroneous. . . . The net revenue produced by the application of that rate of return to the commission's depreciated rate base, after payment of charges on debt, fails to meet by more than 3 per cent the fair rate of earnings on petitioner's common stock equity as measured by the realized earnings on the common stock equities of other comparable natural gas utilities.

THE company made the important point that the percentage of high-cost common stock capital in the total capitalization of a utility is a major factor in its over-all cost of obtaining funds. "A straight gas company such as petitioner, with a relatively high equity ratio of 53 per cent, requires and should be allowed a substantially higher over-all rate of return than electric or combination utilities with smaller equity ratios."

CURRENT UTILITY STATISTICS AND RATIOS

	Unit Cost	Latest Month	Latest 12 Mos.	Per Cent Increase Latest Month	Per Cent Increase Latest 12 Mos.
Operating Statistics (February)					
Output KWH—Total	Bill. KWH	31.5	376.3	12%	12%
Hydro-generated	"	9.5	—	15	—
Steam-generated	"	22.0	—	10	—
Capacity	Mill. KWH	76.0	—	10	—
Peak Load (December)	"	67.9	—	10	—
Fuel Use: Coal	Mill. Tons	8.7	—	2	—
Gas	Mill. MCF	54.8	—	35	—
Oil	Mill Bbls.	4.8	—	D14	—
Coal Stocks	Mill. Tons	37.7	—	24	—
Customers, Sales, Revenues, and Plant (February)					
KWH Sales—Residential	Bill. KWH	5.9	58	12%	13%
Commercial	"	3.9	44	7	12
Industrial	"	11.6	134	9	13
Total, Incl. Misc.	"	27.8	314	7	10
Customers—Residential	Mill.	30.1	—	4	—
Commercial	"	4.3	—	1	—
Industrial	"	.5	—	2	—
Total	"	37.1	—	3	—
Income Account—Summary (February)					
Revenues—Residential	Mill. $	160	1,670	10%	11%
Commercial	"	107	1,220	7	9
Industrial	"	129	1,502	9	10
Total, Inc. Misc. Sales	"	432	4,841	8	9
Sales to Other Utilities	"	33	399	2	3
Misc. Income	"	25	217	3	6
Expenditures					
Fuel	"	71	869	7	13
Labor	"	84	1,020	8	9
Misc. Expenses	"	67	790	4	1
Depreciation	"	42	478	9	8
Taxes	"	112	1,158	9	18
Interest	"	25	284	10	8
Amortization, etc.	"	1	23	D52	8
Net Income	"	88	835	10	2
Preferred Div. (Est.)	"	10	118	5	6
Bal. for Common Stock (Est.)	"	78	717	11	2
Common Dividends (Est.)	"	50	543	13	9
Balance to Surplus (Est.)	"	28	174	40	8
Electric Utility Plant (February)	"	21,063	—	10%	—
Reserve for Depreciation and Amort.	"	4,260	—	8	—
Net Electric Utility Plant	"	16,803	—	10	—
Life Insurance Investments (January 1st-April 19th)					
Utility Bonds	"	—	200	—	D7%
Utility Stocks	"	—	23	—	60
Total	"	—	223	—	D3
% of All Investments	"	—	7%	—	13

RECENT FINANCIAL DATA ON GAS COMPANY STOCKS

1951 Rev. (Mill.)			4/30/52 Price About	Indicated Dividend Rate	Approx. Yield	—12 Mos. Share Earnings#— Current Period	% Increase	Freq. Of Reports**	Price-Earn. Ratio	Div. Payout
		Producers and Pipelines								
$ 9	O	Commonwealth Gas	25	$ .25	1.0%	$ .87d	18%	a	—	29
30	S	Mississippi Riv. Fuel ...	36	2.20	6.1	3.29d	10	qy	10.9	67
47	S	Southern Nat. Gas	51	2.50	4.9	4.63m	26	qy	11.0	54
3	O	Southwest Nat. Gas	7	.20	2.9	.56d	60	bq	—	36
76	O	Tenn. Gas Trans.	29	1.40	4.8	1.63d	—	qy	17.8	86
84	O	Texas East. Trans.	19	1.00	5.3	1.76d	D2	a	10.8	57
40	O	Texas Gas Trans.	17	1.00	5.9	1.84d	D6	a	9.2	—
		Averages			4.1%				11.9	
		Integrated Companies								
98	S	American Natural Gas ..	31	$1.80	5.8%	$2.91m	7%	bq	10.7	62
188	S	Columbia Gas System ..	15	.90	6.0	1.06d	D2	qy	14.2	85
8	C	Consol. Gas Utils.	13	.75	5.8	1.73j	15	qy	7.5	43
159	S	Consol. Nat. Gas	58	2.50	4.3	5.67d	13	qy	10.2	44
62	S	El Paso Nat. Gas	34	1.60	4.7	3.13j	63	my	10.9	51
27	S	Equitable Gas	21	1.30	6.2	1.97m	2	bq	10.7	66
13	O	Interstate Nat. Gas	37	2.50	6.8	3.25dx	30	a	11.4	77
9	O	Kansas-Neb. Nat. Gas ..	23	1.24	5.4	2.11d	36	qc	10.9	59
59	C	Lone Star Gas	26	1.40	5.4	1.54m	D32	mqy	16.9	91
17	S	Montana-Dakota Utils. ..	24	.90	3.8	1.02m	D5	qy	—	88
11	O	Mountain Fuel Supply ..	19	.60	3.2	1.15d	16	a	16.5	61
42	C	National Fuel Gas	14	.80	5.7	1.19d	D3	bq	11.6	67
40	S	Northern Nat. Gas	41	1.80	4.4	1.68d	D21	qy	—	107
25	C	Oklahoma Nat. Gas	34	2.00	5.9	2.34f	D25	b	14.5	85
19	C	Pacific Pub. Serv.	15	1.00	6.7	1.47d	D34	qc	10.2	68
52	S	Panhandle East. P. L. ..	72	2.00	2.8	3.03d	14	qy	—	66
92	S	Peoples Gas Lt. & Coke ..	129	6.00	4.7	9.16d	D9	qy	14.1	66
17	O	Southern Union Gas ...	20	.80	4.0	1.06d	D30	qc	18.9	76
126	S	United Gas	26	1.00	3.8	1.56d	9	qy	16.7	64
		Averages			5.0%				12.6	
		Retail Distributors								
25	O	Atlanta Gas Light	22	$1.20	5.5%	$1.81d	D3%	bq	12.2	66
4	C	Bridgeport Gas	24	1.40	5.8	.74d	D50	a	—	189
44	S	Brooklyn Union Gas	52	3.30	6.3	4.48d	24	qc	11.6	74
22	O	Central El. & Gas	11	.80	7.3	1.08f	5	qy	10.2	74
5	O	Hartford Gas	37	2.00	5.4	2.39d	D11	a	15.5	84
1	O	Haverhill Gas Lt.	34	1.80	5.3	2.18f	5	my	15.6	83
9	O	Houston Nat. Gas	18	.80	4.4	1.49ju	41	a	12.1	54
10	O	Indiana Gas & Water ..	24	1.40	5.8	2.06m	D5	c	11.7	68
1	O	Jacksonville Gas	32	1.40	4.4	4.97dx	4	a	6.4	28
5	C	Kings County Ltg.	9	.40	4.4	.86m	59	qc	10.5	47
29	S	Laclede Gas	8	.50	6.3	.84f	D2	b	9.5	60
2	O	Michigan Gas Utils.	9	—	—	1.25d	47	qy	7.2	—
19	O	Minneapolis Gas	20	1.10	5.5	1.19d	—	qy	16.8	92
6	O	Mobile Gas Service	30	1.60	5.3	3.05d	D11	bq	9.8	52
5	O	New Haven Gas Lt.	27	1.60	5.9	1.53d	D20	a	17.6	105
124	S	Pacific Lighting	50	3.00	6.0	3.36d	D34	bq	14.9	89
11	O	Portland Gas & Coke ..	17	.80	4.7	1.81m	10	bq	9.4	44
7	O	Providence Gas	8	.40	5.0	.36d	D37	a	22.2	111
2	C	Rio Grande Valley Gas ..	2	.12	6.0	.19d	—	qy	10.5	63
1	O	Rockland Gas	40	2.00	5.0	4.72d	2	a	8.5	36
5	O	Seattle Gas	15	.60	4.0	1.33m	D15	qy	11.3	45
5	O	So. Jersey Gas	14	.50	3.6	.97m	59	qc	14.4	52
5	O	Springfield Gas Light ..	33	1.60	4.8	1.63d	—	—	20.2	98
19	S	United Gas Improv.	32	1.55	4.8	1.94m	D10	qy	16.4	80
27	S	Wash. Gas Light	30	1.50	5.0	2.51m	D13	bq	12.0	60
		Averages			5.3%				12.8	
		Canadian								
14	S	International Utils.	27	$1.20	4.4%	$1.80d	20%	mqy	15.0	67

RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER COMPANIES

1951 Rev. (Mill.)			4/30/52 Price About	Indicated Dividend Rate	Approx. Yield	–12 Mos. Share Earnings#– Current Period	% Increase*	Freq. Of Reports**	Price-Earn. Ratio	Div. Payout
		Communications Companies								
		Bell System								
$3,639	S	Am. Tel. & Tel. (Cons.)	154	$9.00	5.8%	$11.50f	D11%	mcy	13.4	78
28	O	Cinn. & Sub. Bell Tel. ..	74	4.50	6.1	4.56d	D1	qc	16.2	99
106	C	Mountain Sts. T. & T. ..	101	6.00	5.9	5.60m	D23	qy	18.0	107
203	C	New England Tel.	109	8.00	7.3	7.56m	D35	qy	15.6	106
478	S	Pacific Tel. & Tel.	109	7.00	6.4	7.80f	D14	qy	14.0	90
62	O	So. New Eng. Tel.	34	1.80	5.3	1.88d	D11	qc	18.1	96
		Averages			6.1%				15.9	
		Independents								
9	O	Central Telephone	11	$ .80	7.3%	$1.20f	12%	qy	9.2	67
85	S	General Telephone	30	2.00	6.7	2.84m	30	qy	10.6	70
11	C	Peninsular Tel.	42	2.50	6.0	3.57m	D7	c	11.8	70
13	O	Rochester Tel.	12	.80	6.7	1.25d	D18	qc	9.6	64
		Transit Companies								
7	O	Chicago SS. & S. B.	11	$1.00	9.1%	$1.58d	D5%	qc	7.0	63
8	O	Chicago So. Sh. & M. ..	5	—	—	.46dx	—	a	10.9	—
9	O	Dallas Ry. & Term.	13	1.40	10.8	2.46d	40	a	5.3	57
227	S	Greyhound Corp.	11	1.00	9.1	1.27d	2	qy	8.7	79
22	O	Los Angeles Transit	5	.50	10.0	.79d	55	qc	6.3	63
31	S	Nat. City Lines	10	1.00	10.0	1.91d	—	qc	5.2	52
73	O	Phila. Transit	5	.80	16.0	1.58m	—	qc	8.6	138
7	O	Rochester Transit	4	—	—	1.12d	762	a	3.6	—
26	O	St. Louis P. S. A	9½	.50	5.3	.35d	D15	qc	—	143
4	O	Syracuse Transit	18	2.00	11.1	1.75d	D40	a	10.3	116
24	O	United Transit	3	—	—	.42d	D38	qc	7.1	—
		Averages			9.6%				7.3	
		Water Companies								
		Holding Companies								
26	S	Amer. Water Works	8	$ .50	6.3%	$ .77d	D24%	qy	10.4	65
4	O	N. Y. Water Service	36	.80	2.2	2.03d	4	qy	17.7	39
		Operating Companies								
3	O	Bridgeport Hydraulic ..	29	$1.60	5.5%	$1.74d	20%	a	16.7	92
8	O	Calif. Water Serv.	29	2.00	6.9	2.96m	35	b	9.8	68
2	O	Elizabethtown Water ..	85	5.00	5.9	5.74d	D18	a	14.8	87
6	S	Hackensack Water	31	1.70	5.5	2.56d	D6	qc	12.1	66
3	O	Jamaica Water Supply ..	25	1.50	6.0	2.47m	2	qy	10.1	61
3	O	New Haven Water	55	3.00	5.5	2.91d	D10	a	18.9	103
1	O	Ohio Water Service ...	22½	1.50	6.7	1.91d	D3	bq	11.4	79
4	O	Phila. & Sub. Water ...	42	1.00(a)	2.4	3.06dx	D12	a	13.7	26
1	O	Plainfield Union Wt. ...	50	3.00	6.0	4.09d	D2	a	12.2	73
2	O	San Jose Water	33	2.00	6.1	2.45f	D11	b	13.5	82
6	O	Scranton-Spring Brook .	14	.90	6.4	1.03d	D8	qy	13.6	87
3	O	Southern Cal. Water	9	.65	7.2	.83d	8	qy	10.8	79
3	O	West Va. Wt. Service ..	26	1.20	4.6	1.38m	5	bq	18.8	87
		Averages			5.6%				13.6	

D—Deficit. C—Curb exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. *Increase in balance for common stock. #Earnings are calculated on present number of shares outstanding, except as otherwise indicated. PF—*Pro forma.* dx—December, 1950. ju—July. d—December, 1951. j—January, 1952. f—February, 1952. m—March, 1952. NC—Not comparable. **The following symbols are used in this column to indicate the periods and frequency of earnings reports: a—Calendar year only. b—Twelve months only (reported monthly). bq—Twelve months only (reported quarterly). c—Cumulative months and twelve months. mc—Latest month and cumulative months. mcy—Latest month, cumulative months, and twelve months. q—Latest quarter only. qc—Quarters cumulatively. qy—Latest quarter plus last twelve months. a—Stock dividend also paid in 1951.

What Others Think

Is the FPC Being Sabotaged by Smear Attack?

ANY reasonably well-informed person who has observed or played a part in Washington legislative or administrative processes during the last decade, knows about the power of the "anvil chorus." That is just one of the names which Washington lawyers, newspapermen, Congressmen, and others give to a small coterie of Washington columnists and radio commentators who traditionally hew to a self-styled "liberal" line.

There are other nicknames, considerably less polite. But the fact that there is such a group consistently hammering away at the reputations and the integrity of any public official who disagrees with them on administrative or regulatory policies is pretty well recognized among the less pleasant phenomena of everyday operations in the nation's capital.

It is a powerful group, armed with the resources of vast syndicate and network coverage, and the greatest facility and ingenuity in the use of the sneer, smear, innuendoes, and invective. It is commonly rumored that some officials have been known to bargain for personal immunity from this ordeal by paying tribute in the form of "pipeline information" which can be exclusively peddled by the columnists as "inside stuff." Others stay as far away as they can from the firing deadlines. But few can afford to talk back, unless it be the President of the United States. (One member of the group has been repeatedly given White House recognition in the form of a short, ugly, four-lettered word.)

Therefore, an article in the current (May) issue of *Fortune* magazine calling the turn on the systematic character assassination of some members of the Federal Power Commission is as surprising as it is noteworthy. In an article entitled "Natural Gas and the Authoritarian 'Liberals,'" by John Osborne, the shocking extent to which the independent regulatory processes of able and honest commissioners have been hatcheted by irresponsible commentary is fully unveiled.

IT is ironic that most of the members of this set are among those who cry the loudest about "McCarthyism," which is generally assumed to mean character assassination against Liberals, or erstwhile Liberals, with pink or red connections. But, actually, the smear technique, which is probably as old as the human race, came to Washington in a big way in 1928. Harry Elmer Barnes, the historian, ascribes the origin of the "smear device" to "propaganda strategy perfected by Charles Michelson . . . and extended by Joseph Goebbels . . . seeking to destroy the reputation of an opponent by associating him, however unfairly, with some odious quality, attitude, policy, or personalities."

Osborne's article sets out illustrated excerpts of columns by the following syndicated Washington pundits: Joseph and Stewart Alsop, Thomas L. Stokes, Robert S. Allen, Drew Pearson, and Lowell Mellett. It has been previously noted that many of the critical commentators on decisions or policies of the FPC seem to have such a community of content as to suggest a common source. The nature of this technique of reverse "McCarthyism" is well known.

But as an example of a hatchet job which might be called a slaughter of the innocents, consider the following passage quoted by Osborne from a Lowell Mellett column concerning a new appointee to the FPC. This appointee had not yet taken his oath of office nor performed a single act or uttered a single personal

comment, good, bad, or indifferent, which could lend itself to any legitimate interpretation whatever. The record of the new appointee, Dale E. Doty, was still a blank page as far as FPC was concerned when Mellett dropped this gem in his column:

> So the President settled on a less controversial figure, Dale E. Doty, Assistant Secretary of the Interior in charge of land management. How strong a man Mr. Doty is remains to be seen. His chief, Secretary Chapman, indorses him and that's in his favor. The Kerr element accepts him and that raises a question. *For the new commissioner, if he is disposed to fight for the public, will sooner or later find himself in a fight that isn't fought for fun—not for fun, but for millions.* (*Fortune's* italics.)

According to Osborne's analysis in *Fortune*, this passage from Mellett is a fair specimen of the most pervasive and powerful cliché of our times—the assumption that the "public" and private possessors of property or dollars must always be at war and that every public official, from the President down, must take sides in this conflict for or against the public. It is never conceded that public interest and private interest can possibly coincide or that an honest official can be for both at any one time on any one question.

BEFORE sketching the impact of this systematic sabotage on the individual members of the FPC, Osborne cites instances of Congressmen whose reputations have been unfairly blasted by the key-hole reporters with syndicated Washington bylines. Senator Robert S. Kerr is a millionaire who is still making money in oil and gas and is therefore damned out of hand as the personification of vested interests, even to the extent of having his name used as a tag label—"the Kerr element."

Speaker of the House Sam Rayburn and other southwestern Congressmen were represented as browbeating President Truman into packing the FPC with members who do as the gas industry wishes. The fact that a majority of both houses of Congress once passed the Kerr Bill, and that the President's own advisers had given Kerr assurance that he would sign, was passed over lightly, if mentioned at all. Senator Lyndon Johnson (Democrat, Texas) gives a wistful picture of what happens to a Congressman who runs afoul of the hatchet columnists:

> When I am investigating military waste, for instance, I'm a big man in the columns. I'm a true liberal, a great friend of the people. But when I take a position in line with the biggest industry in my state—when I take the position the people of my state want me to take—I'm through in the columns. I'm a reactionary, I'm a scoundrel who has sold out to the interests.

In a further comment, which may flatter Washington's "liberal" columnists and commentators but also explains their power, Johnson says, "Don't think it's not a serious matter for me. I've lost the best chance, maybe the only chance, I have to build up a good national reputation and be something more than a Senator."

OSBORNE points out that the very existence of such regulatory agencies as the FPC is a form of recognition that public and private interests *may* be in conflict, and that in some fields and circumstances the Federal government must provide a means of reconciling the two for the whole good. Once the means is provided, as with the FPC in the fields of electric power and natural gas transmission, only harm and misunderstanding result from the arbitrary and fallacious assumption that the reconciling agency must be wholly at the service of one interest or the other. Our society and its agencies of government rest upon the proposition that the public interest and the private interest not only are reconcilable but may be identical.

According to the *Fortune* article, probably the hardest hit victim of the smear

gang is Commissioner Nelson Lee Smith, a former Dartmouth economics professor of impeccable reputation and recognized ability who honestly believes that the Natural Gas Act was not intended by Congress to give the FPC authority to regulate gas production—as the commission decided itself (4 to 1) in the celebrated Phillips Case. Speaking of Commissioner Smith's position, Osborne, in the *Fortune* article, states:

> . . . He was against that [exercise of control over gas producers] before the Kerr Bill or the Phillips Case was ever heard of; he is against it now. His reputation for honor and for independence of thought and action is never questioned in any other connection. Yet he has been repeatedly accused of taking his position against regulation of field prices to accommodate "the interests." Why? Because the "liberal" dogma about the FPC lays it down that no commissioner could conceivably agree with the oil-and-gas industry on this issue unless he had been improperly influenced by the industry. The simple fact is that Smith happens to believe the Natural Gas Act forbids such an extension of FPC's authority. Incidentally, in matters that he is convinced the FPC has clear authority to regulate, Smith has been a tough regulator.

OTHER members of the commission, Draper, Wimberly, and former Chairman Wallgren, had similar experience in having their motives questioned and their reputations for personal and intellectual honesty brought under suspicion by the concerted hammering of the anvil chorus. Only the present chairman, Thomas C. Buchanan, who happened to dissent and therefore agree with the "public" viewpoint, escaped criticism and even won praise for his undoubtedly sincere minority view.

Likewise former Commissioner Olds, now laboring in an obscure job for the Interior Department in Boston, won the plaudits of the self-appointed liberal contingent. In this connection, Osborne pointed out that the decisive factor in the adverse Senate reaction to Olds reappointment was probably his change of mind about the Natural Gas Act. Before 1947, Olds had joined other members of the commission in a statement that the FPC had no intention of trying to control independent producers' prices. After that time, however, Olds concluded that the FPC should regulate such production and he accordingly decided that the law permitted the FPC to do so. Osborne stated on this point:

> This bald assertion of the administrator's right to read the law as he sees fit was too much for Senators who might otherwise have voted for Olds on his record as a brilliant regulator. Anyone who reads the hearings today must also sense the Senators' feeling that they were dealing with a true authoritarian—a devoted Liberal, yes but a man whose assumptions of exclusive rightness were incompatible with the processes of government as the Senators saw them.

IT would appear from this frank analysis of how the "liberal" mind works that the label of "McCarthyism" depends not so much on the methods used but the direction and ideological complexion of the victim. But in the field of regulation it is regrettable that such systematic harassing of sincere and able officials should threaten not only the effectiveness of the commission and its reputation, but also act as a deterrent to the future recruiting of qualified regulators.

Another disturbing factor suggested by Osborne is the possibility that influence peddlers and "five per centers" may be entering the field of regulation. Cynical Washington gossip, ranging from intimate Georgetown soirées to the Statler cocktail sessions, has it that the surest way to get a pipeline certificate is to hire, as lawyer, an ex-New Deal brain truster. Such stories hardly enhance the confidence which we should have in the fairness of the regulatory processes.

—F. X. W.

WHAT OTHERS THINK

Flood Control on the Missouri

THE disastrous flood in the Missouri valley has brought forth a flurry of editorial comment throughout the country and the usual demand from several sources for some sort of valley authority similar to TVA. The *St. Louis Post-Dispatch* lamented the fact that the Tennessee valley, and not the Missouri valley, had been chosen "for the great experiment in integrated management of water resources undertaken by Congress under the TVA two decades ago." The relief of human distress should be the first consideration, said the *Post-Dispatch,* "but crowding it close is the necessity for pushing as hard as possible for every conceivable improvement in the way flood-control measures are planned, integrated, and executed." The St. Louis paper declared itself in general agreement with President Truman's proposal to turn over responsibility for flood control from the Army Engineers to the Interior Department. Declining to discuss the pros and cons of this change, the paper added:

> When there is a change of any kind in the responsibility for flood control it should be only as a means to the one inevitable end—a valley-wide administration of the Missouri river and its assets and liabilities.
>
> It is time to lay a sound basis for stopping floods and saving soil and harnessing water power for constructive use as was done nearly twenty years ago in the Tennessee valley.
>
> There is nothing President Truman can do for his own part of the country and his home people that should give him as much satisfaction as advancing this great cause.

THE (Louisville, Kentucky) *Courier-Journal* was even more forceful in its demand for an MVA. "Now in its most destructive flood," cried the *Courier-Journal,* "the Missouri river mocks by its roaring a record of neglect, of divided authority, of economic conflict, and of rivalry for power between agencies of the government." The paper gave its wholehearted support to the Hoover Commission recommendations that flood-control responsibilities be centralized in one department, and advised the creation of a new department merging civil functions of the Army Engineers and the Bureau of Reclamation, to be called the Department of Public Works, or Department of Natural Resources. Noting the ever-present opposition to such proposals from pork-barrel enthusiasts in Congress, the editorial remarked:

> . . . when something of this consolidated effort is proposed, as in the Roosevelt and later the Truman idea for a Missouri Valley Authority, political hell breaks loose. Friends of private power as opposed to public power enterprises like the TVA rush in to cry "Socialism" and "bureaucracy."
>
> And Old Man Missouri river keeps rolling along in taunting flood every year at this season, the most important season to farmers, when crops must be started. It keeps chewing up fertility and leaving behind more and more naked land.

HOWEVER, the trials and tribulations of residents of the Missouri valley got little sympathy from the *Chicago Tribune* and its Washington, D. C., sister, the *Times-Herald.* Admitting that it may be "cruelly pointless to tell a man who has just lost all his worldly goods that it is his own fault," such is the case, according to the *Times-Herald.* Living by the river is a gamble, said the paper, and "anyone who has lived four seasons near such a river should know enough to keep away from it."

"River bottom land is usually rich land. Farmers will risk floods in order to cultivate it, knowing that even if they lose every other crop, they gain in the long run. But then engineering idiots organized in levee districts began building to keep the river out and assure

crops every year. Naturally the rivers rose higher and higher, until they topped the levees.

"The United States has wasted billions of dollars on phony flood-control schemes. Only one thing is necessary to solve the flood problem. That is to give the river back its channel and old flood plains. If people want to build on them, or farm them, let them do so at their own risk, and not expect the government to bail them out, literally and financially, when the river takes over."

THE Missouri river, warns the *Times-Herald,* does not gamble. Foolish men may move closer and closer to its banks, restricting its flow for their own selfish purposes, "but sooner or later it takes back its own."

The Truman administration is presently plugging the Pick-Sloan plan, which one commentator calls an "expensive two-headed monster born of a shotgun wedding between the Army Corps of Engineers and the Interior Department's Bureau of Reclamation." The two agencies were bitter rivals in efforts to get congressional authorization for their respective plans until 1944 when they joined forces in the face of a proposal to have the entire program handled by an independent Missouri Valley Authority similar to TVA. The Hoover Commission reported that the "compromise" in no sense represented an integrated development plan for the basin and warned that "agreement between the two agencies may be more costly to the public than disagreement."

President Truman has blamed an economy-minded Congress for the fact that the Missouri river is still out of hand, although more than one billion dollars already has been spent on the Pick-Sloan plan.

Conservation of Natural Gas Resources

FACED with a "runaway market" in the demand for natural gas, the United States has been urged to adopt a more conservative viewpoint in prolonging its resources. The advice was given at the Mid-West Gas Association convention at Minneapolis by John C. Doerfer, chairman of the Wisconsin Public Service Commission.

The policies toward solving this problem which may be adopted by the states, Doerfer said, depend to a great extent on the policies of the national government, other state governments, and the producers of natural gas.

"We know we are dealing with a depleting asset," he said. "Even with new discoveries of substantial reserves, growing demands may neutralize any possibility of addition to our long-term estimates." Doerfer warned a war might well accelerate the demand and that the petrochemical industry, now in its infancy, may make substantial increases in the demand. He called on Congress, state legislatures, state and Federal commissions, and the gas industry to give serious thought to eliminating waste in the fields and uneconomical uses in consuming markets until the danger of war is past or until the belief that new discoveries will keep abreast of present demands is realized.

Doerfer declared that millions of cubic feet of gas are wasted daily. In Oklahoma, alone, he said, more than 200,000,000 cubic feet of "tail gas" in connection with oil production are discarded daily.

ANOTHER means of conservation, he pointed out, would be for consuming states to adopt selective or preferred use policies. They could also deny or discourage natural gas use by those industries which, but for a favorable price differential, could easily substitute coal to meet their fuel requirements.

Doerfer opposes, however, any method involving the raising of prices to the consumer beyond a reasonable return to the distributing company as a means of carrying out a conservation or a selective use policy.

The March of Events

In General

Roanoke Review Granted

VIRGINIA ELECTRIC & POWER COMPANY may halt its preliminary work on its Roanoke Rapids, North Carolina, hydroelectric plant until the U. S. Supreme Court rules in the controversy between the company and the Secretary of the Interior. The high Court on May 5th decided that it would review the case, which means that the project will be delayed until this fall. The Court docketed the hearing for the term which begins on October 6th.

Jack G. Holtzclaw, president of Vepco, said the company may find it advisable to suspend operations at the site of the $27,000,000 dam on the Roanoke river until the high Court decides whether the permit granted the company by the Federal Power Commission shall stand.

Secretary Chapman of the Interior Department has challenged the right of FPC to grant the company permission to build the huge dam and has insisted that it should be built by the government.

The AEC and Taxes

STATE tax officials protested to Congress late last month about a Supreme Court decision that makes Atomic Energy Commission contractors immune from state and local taxes.

Dixwell Pierce, secretary of the California State Board of Equalization, presented the states' cases before the Joint Congressional Atomic Energy Committee. He was a spokesman for a committee of the National Association of Tax Administrators. Other committee members represented Colorado, Connecticut, Indiana, North Carolina, Tennessee, and Maryland.

Pierce said the Supreme Court, in a decision handed down in January, made an "erroneous" interpretation of the intent of Congress when it passed the Atomic Energy Act. He said Congress did not intend the contractors who work for the commission should be immune. He asked that Congress act to eliminate the confusion.

The governors of Illinois and Nevada also have protested the Court's ruling.

New Rate Schedules Filed with FPC

R. H. HARGROVE, president, Texas Eastern Transmission Corporation, announced in Washington, D. C., on May 1st that the company had filed with the Federal Power Commission new rate schedules for gas sales to its utility and municipal customers calling for the first increase in rates since the company began operations in 1947.

Hargrove stated that the increased rates were necessary in order to meet substantial increases in the cost of operations, particularly in the cost of the gas which the company purchases, and that these new rates are required to assure the company's customers continued adequate and reliable service. The new rates are estimated to yield approximately $42,000,000 of additional revenue in 1953.

Manufacturers Light & Heat Company, Pittsburgh, Pennsylvania, subsequently asked the FPC for authority to increase the rates it charges other public utilities for its services by $1,750,000 annually. Charles E. Bennett, Manufacturers' president, said that the new rates

filed by Texas Eastern Transmission Corporation will increase Manufacturers' gas costs by more than $3,000,000 a year.

"The proposed increase by Texas Eastern is in addition to the $2,000,000 annual increase already asked by other southwest suppliers. Other factors than the increase in the gas purchase price necessitates Manufacturers to raise its rates, Bennett said. He added that installation all up and down the line had vastly increased the company's costs.

California

Seeks FPC Permit

The Sacramento Municipal Utility District recently asked the Federal Power Commission for a preliminary permit on a proposed hydroelectric development in Eldorado county, California.

The development would be located on the Rubicon river and its tributaries, Silver Creek, and the south fork of the American river and its tributaries. The district plans to distribute the power within its territory through its presently owned and operated distribution system.

Connecticut

Files New Rate Schedules

The Hartford Electric Light Company on May 1st filed with the state public utilities commission new schedules calling for an increase in electric rates to its customers. Subject to approval of the commission, the rates would go into effect on July 1st.

This is the first general rate increase by the company in more than thirty years, and is required because present rates are inadequate to meet increased costs of doing business, the company stated.

The new rates will mean an increase of less than 3 cents per day for the average household customer, who uses about 152 kilowatt hours per month (exclusive of water heating). For thousands of customers who use less electricity, the increase will be smaller than that and for the larger users it will be somewhat greater, it was said.

The proposed increase for the domestic business includes an adjustment for increase in the cost of fuel from the time the present domestic rates were filed to the present.

District of Columbia

Electric Rate Increase Upheld

A $2,600,000 electric rate increase, opposed by the Capital Transit Company, was upheld early this month by District Judge Alexander Holtzoff.

The rate hike means little to ordinary Washington consumers, since it has been in effect since April 20, 1951. Under the new rates, the average housewife has been paying approximately 19 cents more per month than she did under the old schedule.

Capital Transit, the U. S. government, and Herbert P. Leeman, a civic leader, fought the hike. Leeman and the government consolidated their claims with that of the transit company and the latter carried on the fight.

The transit company objected because 23.1 per cent, or $230,000, was allocated as its share of the burden. Capital Transit also complained that in fixing the rates the public utilities commission considered the metropolitan area as a whole. The company argued that the price it should pay should have been determined upon

the cost of supplying current in each jurisdiction in which it operates.

Senate Calls Transit Hearing

THE Senate Interstate Commerce Committee recently scheduled public hearings for May 21st and 22nd on greater Washington's "terrific public transportation problem."

Testimony has been invited on resolution by Senator Edwin C. Johnson (Democrat, Colorado), the committee chairman, authorizing near-by Maryland, Virginia, and the District to enter into a compact for unified regulation of public transportation in greater Washington and also on a bill providing for an Interstate Commerce Commission investigation of area transit service and fares.

Asked if officials of Capital Transit Company will be asked to testify, Johnson, who has criticized the firm severely, replied, "If Capital Transit wants to come, we will be more than glad to hear from them, but it is not my present intention to invite them."

A full-scale investigation of the Capital Transit Company was recommended several months ago by a member of the House District Committee. The probe was turned over to a Public Utilities subcommittee.

Illinois

Home Heating Gas Services Revised

THE state commerce commission recently set up a number of regulations for the sale of gas for residential space heating. The regulations were included in an order which denied a petition of the Public Service Company of Northern Illinois to increase the volume of gas sales to industrial customers.

The new commission procedures on residential space-heating service are:

1. A space-heating customer may transfer his service after twelve months of use from one premise to another, providing the utility is relieved of obligation to furnish service to the premises vacated.

2. Public Service is required to maintain three lists of persons requesting residential space-heating service. They are: Those who have requested gas for existing residences, new residences, and projects. All requests must be made in writing. The commission set up a ratio system for deciding how many customers in each category could obtain the fuel.

3. All authorizations for space heating will terminate if a person, so instructed to install a new service, does not notify Public Service Company in writing within thirty days whether he intends to use such service.

4. Period of space-heating installation is extended from six to twelve months after the customer has accepted the utility's authorization.

The record showed that the company as of April 1, 1952, had 54,000 requests pending for space-heating service and that additional applications are being received at a rate of 4,000 per month.

Massachusetts

Bill Held Unconstitutional

THE state supreme judicial court in a ruling given to the Massachusetts house recently, stated that a bill to disallow the hearing of new evidence in appeals from decisions of the state department of public utilities is unconstitutional.

The measure is before the state legislature again this year for passage and arises from a case in which the department of public utilities was overturned by the court and higher rates were granted the Lowell Gas Company. The bill was recommended by the department.

The decision against it was unanimous.

The opinion said the general court may constitutionally enact legislation providing that the supreme judicial court could not hear any evidence except that, "in order to afford the complete review of law and fact which is constitutionally necessary where issues of constitutional right are involved, such legislation must leave in the court, in such cases, full authority to see to it that, by remanding the case to the commission or otherwise, the court can require the commission to hear and report all pertinent evidence, and that this authority must extend to new evidence necessary to bring the proof as nearly as reasonably possible down to the date of the final decision."

The opinion also stated that the bill, in its present form, would be unconstitutional for the reason that it would deprive the court of all power to determine the facts in cases involving questions of confiscation or of denial of constitutional rights.

New Jersey

Sign Electrical Workers' Contract

A ONE-YEAR contract providing for a $7\frac{1}{2}$ per cent general wage increase was signed recently by Public Service Electric & Gas Company and the AFL System Council, bargaining agent for the company's 4,500 electrical and allied workers.

The company and the union came to terms after a 12-hour meeting. The contract between the company and the union expired May 1st.

Pennsylvania

Asks End of Rate Boost Suspension Order

PEOPLES NATURAL GAS COMPANY early this month petitioned the state public utility commission to withdraw immediately its suspension order affecting new gas rates sought by the company.

The new rate schedule, calling for a 13 per cent increase to residential and commercial customers of Peoples in 13 counties of western Pennsylvania, was applied for last October 15th and was suspended by the commission for six months on December 15, 1951.

Additional revenue sought by Peoples would amount to $2,709,000 annually. A fourth hearing by the state commission on the original request for rate increases was set tentatively for the latter part of this month.

Virginia

Gas Rates Increased

BIG users of gas in Lynchburg will have to pay higher rates beginning June 1st. Residential users, however, will pay no more for gas for cooking, water heating, and refrigeration.

The state corporation commission on May 4th granted increases to the Lynchburg Gas Company for consumption in excess of 5,000 cubic feet per month. The new rate will affect 1,500 of the company's 8,915 customers.

Commission staff investigators verified that the new rates would give the company an additional $27,000 in revenue from the sale of gas over the $667,450 in 1951. They estimated the proposed increases would give the company a rate of return of 6.88 per cent on investment. In 1951 the rate of return was 7.14 per cent, but because of increased costs, the investigators said, the old rates would have produced only an estimated 5.90 per cent rate of return this year.

Progress of Regulation

Court Considers Relationship between Rate Base and Method of Fixing Return

THE Kentucky Court of Appeals affirmed a lower court order which had denied a telephone company's challenge to a commission order granting a portion of its rate increase application and denying the balance.

One of the primary contentions of the company was that the commission, in fixing a rate base, did not give due consideration to cost of reproduction as a going concern. The company "invited" the court to enter into a detailed examination of the theories of developing a rate base.

The court declined to consider the question of a rate base. It pointed out that the company was seeking approval of a specific schedule of rates designed to produce additional income estimated at a specific amount. The rates approved by the commission denied the company about $87,000 of the amount requested. The commission's figures were based on a 6 per cent return allowance while the company sought a 7.2 per cent return. The difference between a return at 7.2 per cent and a return of 6 per cent on the rate base found by the commission was substantially equal to the portion of the requested increase which the commission refused to grant.

From this the court concluded that the actual controversy in the case pertained to the rate of return and not the rate base. The court commented:

> Of course it will be argued that a higher rate base, with a 6 per cent rate of return, would have supported the full increase in rates sought by the company, and therefore the rate base *is* in controversy. The fallacy in that argument is that it assumes the rate of return should remain the same regardless of the method or formula used in determining the rate base.

The court spoke of the policy in various jurisdictions of adopting a lower rate of return with a reproduction cost rate base than that used with original cost. This policy, the court said, does not necessarily reflect an effort to minimize the effect to be given reproduction cost but rather is based upon a recognition that different standards of measuring a rate of return must be used with different rate bases.

With a reproduction cost rate base, the court continued, a rate of return should be equal to that generally being made at the same time in the same area on investment in other business undertakings which are attended by corresponding risks and uncertainties. With an original cost rate base which is related to the capital structure of the company, the cost of capital test is used to determine a reasonable return.

As further proof that the standard used in measuring a return allowance must vary with the formula employed in fixing a rate base, the court showed that the requested 7.2 per cent return on the requested reproduction cost rate base would produce about twice as much money as the company asked for.

Having disposed of the valuation question, the court proceeded to consider the return determined by the commission.

The company contended that since no evidence other than that offered by its witnesses had been presented, the commission was obliged to accept its figures.

The court answered this argument by pointing out that the commission is not obliged to accept the opinion evidence of witnesses as to fair return but may take judicial notice of the prevailing money market, business conditions generally, the standards as to rate of return existing with relation to utilities throughout the country, and the financial history and capital structure of the company. *Citizens Teleph. Co. v. Public Service Commission, March 21, 1952.*

Related Businesses Held to Be Separate Customers

Two corporations organized for the purpose of operating two coal mines and operating the businesses separately, but with the same officers and stockholders, were considered, by the Kentucky Court of Appeals, to be separate customers of an electric company within the commission rule requiring that each customer have a separate meter.

The companies had been enjoying combined metering in order to obtain an over-all lower rate. This, the court said, is the real vice that the commission rule seeks to prevent, because the practice resorted to, if allowed to spread, would tend to destroy rate standards. *Stoker Coal Co., Inc. et al. v. Public Service Commission, 245 SW2d 601.*

Temporary Rate Reduction Ordered

The Illinois commission, upon finding that earnings of Iowa-Illinois Gas & Electric Company are "so excessive that a temporary order reducing the earnings" is necessary and in the public interest, required a reduction of "only such an amount as is clearly warranted pending the completion of its investigation." Net income, according to the commission, had resulted in a return of 8.341 per cent while, in the opinion of the commission, a net income yielding a 6 per cent rate of return marked the top limit required for a reasonable return.

The commission compared rates of return of other major gas and electric companies in Illinois and found that this company's current rate of return exceeded the rate of return of other companies by percentages ranging from 26.71 per cent above Central Illinois Light Company to 90.53 per cent above Commonwealth Edison Company. Part of the disparity between these rates of return was accounted for by the fact that all of the companies except Iowa-Illinois had agreed to a voluntary reduction in rates in 1946. *Illinois Commerce Commission v. Iowa-Illinois Gas & Electric Co. 39639, April 10, 1952.*

Hearing Unnecessary on Application for Authority to Issue Securities

The Florida commission, which recently was given statutory jurisdiction over gas and electric companies, has adopted rules and regulations governing the disposition of applications for authority to issue securities. The commission decided that a hearing was not necessary in every such case.

Shortly after the commission obtained jurisdiction, it passed upon two such applications. In each of these cases it issued public notice and held a hearing before entering its final order. When a third application was filed, the commission concluded that the authority sought was compatible with the public interest and should be granted without a public hearing.

However, counsel for interested underwriters claimed that since the commission had conducted hearings on the first two applications and had adopted no rule by which it could take final action without a hearing, it should conduct a hearing in this case. The commission said that in some instances a hearing may be appropriate, while in others it is unnecessary and serves only to retard final disposition of the application. But it concluded that some rule was necessary. The commission ruled that each application should be considered separately and on its merits.

A rule was adopted providing that, after preliminary study of an application for authority, and the submission of additional information, if requested or required, and investigation when necessary, the commission should take final action either upon an examination of the record or after public notice and hearing, whichever might be appropriate in the premises.

It said such a rule was considered fair and reasonable. *Re Adoption of Rules and Regulations of Applications of Public Utilities, Docket No. 3526-EGU, Order No. 1779, March 18, 1952.*

Reproduction Cost Denied Approval in Fixing Rate Base

The Illinois commission authorized increased rates in a smaller amount than claimed by a water company. A return in excess of 6 per cent was disapproved, and rates expected to produce a return of about 5.25 per cent on net book value were approved. The commission noted that after deducting interest on bonds, dividends on preferred stock, and miscellaneous interest requirements, the balance of income would provide a return of about 10.2 per cent on common stock capital and surplus.

An inventory and appraisal of property on the basis of 1950 prices and 1940 prices had been presented. The commission believed that appraisals of all physically existing materials at a presumed cost in place as new, including obsolete steam pumps and associated equipment claimed useful as stand-by, less an estimated deduction for depreciation recognized by the appraiser, are far from helpful in arriving at a satisfactory valuation in rate proceedings. The commission continued:

> The property here has ben assembled over a long period of time, has been engineered to meet changed conditions and circumstances, and has been altered and modified from time to time during the life of the property to meet changed operating conditions. It would be illogical to assume even for rate-making purposes that the plant would be reproduced exactly as it now exists. Appraisals such as the one here presented produce arbitrary figures and the depreciation deduction does not provide evidence as to "value."

Since customers' advances for construction are subject to refund only as facilities covered by such advances are used by more customers and pending the improvement in revenues from such facilities, the company pays no interest on these advances. Therefore, the full amount of such advances, according to the commission, should be deducted in determining a rate base.

A claim for approximately 2 per cent of book cost of depreciable property for annual depreciation expense was called excessive and a rate of 1.5 per cent was allowed. *Re Northern Illinois Water Corp. 39448, March 27, 1952.*

Commission Will Not Adopt "Dog in the Manger" Attitude

The Colorado commission, in authorizing an intrastate air carrier to suspend service to an airport on intrastate flights, considered the fact that the

Civil Aeronautics Board had required the carrier to discontinue service to the airport on intrastate flights.

The commission referred to the matter as a "conflict in jurisdiction." The CAB had authorized service to two communities, about forty miles apart, through a single airport. When the communities were unable to agree on a location for the field, the carrier served each community through its individual field. The service by the carrier to two fields while the location dispute was pending was "through sufferance and not through specific authority" of the board.

The commission based its decision principally on the practical difficulty of any other course. If its decision did not coincide with that of the CAB, the carrier would be forced to violate either the board's order or the commission's order each time it sent a flight over the route in question.

The commission acknowledged that it was jealous of its jurisdiction but indicated that it would not adopt a "dog in the manger" attitude and thereby endanger the service of an airline rendering an important public service. *Re Frontier Airlines, Inc. Application No. 11488, Decision No. 38235, March 6, 1952.*

Telegraph Company Authorized to Abandon Intrastate Telephone Service

THE Colorado commission approved a telegraph company's application for authority to abandon intrastate telephone service, notwithstanding protests that the type of personalized service rendered by the company was different from that rendered by the usual telephone utility and that it was a distinct asset to the business of its subscribers.

The factors which the commission said should be considered when an existing utility seeks to abandon service are: 1. The financial condition of the operating public utility; (2) if the operating condition is such that the public utility is rendering service at a loss, whether or not a rate increase would assist the company; and (3) if abandonment is warranted, the availability of an adequate and satisfactory substitute service.

The commission supported its decision in the matter by showing that abandonment of service would be to the advantage of the telegraph subscribers of the abandoning utility since they would no longer have to subsidize the company's telephone operation and would be to the advantage of the subscribers of a competing telephone company because of the additional revenue which the company would receive from the added use of its facilities. *Re Western Union Teleg. Co. Application No. 11475, Decision No. 38248, March 7, 1952.*

Commission Order Establishing Water Rates Reflecting Local Taxes Reversed

THE supreme court of Missouri reversed a commission order approving rates which a water utility had filed in an attempt to adjust inequalities resulting from the fact that the utility's costs of rendering service in some areas exceeded its costs in others because of local tax burdens.

The court pointed out that the company operated on a system-wide basis and that the commission had approved rates and return on a system-wide basis. Both the company and the commission, the court continued, "are now in the anomalous position of disregarding the system basis and of treating the item of local taxes on a segregated municipal unit basis."

The court distinguished this case from other cases in which the imposition of taxes by certain cities within a utility's service area was held to effect a dis-

crimination in rates which should be reflected in the rates charged within the cities imposing the tax. In those cases, the court said, there was a complete valulation of all of the companies' properties and a complete determination of rates and fair return.

The court indicated that in any uniform system of rates a certain amount of discrimination exists since, because of geography, population, or other factors, one area can be serviced more economically than another. From this premise the court developed this argument:

> In short there is disparity in the former uniform system-wide rates and the discrimination is favorable, undoubtedly to the more costly areas, and the taxes involved in this proceeding may or may not shift that unfavorable disparity; from all that appears in this record the taxes may have equalized the previously existing inequalities. But if it does, it does not necessarily follow that the amount of the resulting difference is precisely the amount of the tax, or that it exceeds the more favorable rate previously enjoyed by the more costly operational areas or, in short, that the discrimination is unfair and unjust.

State ex rel. City of St. Louis v. Public Service Commission et al. 245 SW2d 851.

Commission Lacks Power over Employee Facilities

THE Railroad Brotherhoods presented to the Indiana commission rules requiring railroad companies to provide certain facilities for employees. Adoption of the rules would have required the companies to maintain, at all terminals on running equipment, rooms equipped with wash basins, shower baths, and sanitary drinking water coolers.

The commission ruled that it has no statutory power to approve and promulgate such rules for the comfort and health of railroad employees. The proceeding was, therefore, dismissed. *Re Regulations to Provide Facilities for Railroad Employees, No. 23344, April 4, 1952.*

Holding Company's Retention of Utility Securities Disapproved

THE Securities and Exchange Commission ruled that Electric Bond and Share Company could not be relieved of its earlier commitment to dispose of its holdings of common stock of United Gas Corporation. The retention of the stock conflicted with all standards of § 10 of the Holding Company Act. The commission also decided that Bond and Share was not entitled to an exemption from the act because of the extensive public utility operations of United Gas Corporation.

A holding company's acquisition of utility stock may not be approved if it is detrimental to the carrying out of the provisions of § 11 of the act. Bond and Share claimed that its stockholders would derive substantial tax advantages from its holding of United Gas Corporation's stock. The commission held, however, that tax benefits, in themselves, constitute no reason for permitting that which violates the statute. United Gas Corporation could maintain itself independently of the holding company, and Bond and Share performed no useful function and served no economic purpose with respect to it. Continued existence as a holding company over the gas company would constitute an undue and unnecessary complexity within the meaning of § 11(b)(2) of the act.

The acquisition would not tend toward the economic or efficient development of an integrated public utility system. Bond

and Share proposed to retain its holdings of Foreign Power, a holding company with foreign electric subsidiaries. The commission held that United Gas Corporation, a domestic gas utility, was incapable of integration into any system including a company such as Foreign Power.

The commission decided that Bond and Share was not "only incidentally a holding company" within the meaning of § 3(a)(3) of the Holding Company Act. It also held that the exemption provided by § 3(a)(5) of the act was not available since the holding company had a domestic utility subsidiary conducting extensive utility operations which were not merely incidental to the subsidiary's nonutility business. The exemption would be detrimental to the public interest and the interest of investors or consumers, according to the commission. In denying the application for an exemption under the act, the commission said:

We cannot find that the alleged benefits are sufficient to warrant a finding that the public interest or interest of investors or consumers with which the act is concerned is not adversely affected by Bond and Share's program which, as has been stated, defeats the basic policy of the act. That the program will facilitate an investment project to the gain of Bond and Share and its stockholders does not satisfy the test expressed in the act that holding companies can continue only if their operation is restricted within a designated ambit and conducted under prescribed conditions. This test, adopted as the principal measure to safeguard the public, investors, and consumers, would not be met under Bond and Share's proposals.

Re Electric Bond & Share Co. File Nos. 54-127, 59-12, 59-3, 70-1806, Release No. 11004, February 6, 1952.

Extended Area Telephone Service Ordered for Adjacent Area

The Wisconsin commission ordered a telephone company to furnish switched line service to a company serving an adjoining area in view of a predominant community of interest between the two territories. A large majority of the residents in an area served by a small company had a use for direct service to the area served by the larger company. However, since there was some demand for the small company's service, the commission deemed it undesirable to order the discontinuance of existing service. To authorize one company to extend direct service to the adjacent area would result in a duplication of telephone facilities by two different companies. The commission considered this undesirable.

The commission set forth certain general principles which it proposed to follow in telephone extension cases. It pointed out that exchange areas, as they exist today, are the products of historical development. Although an exchange area is not unalterable, it should consist of a natural economic unit of such territory as will be conducive to the best interests of both the public and the utility.

The commission believes that exchange boundaries, no matter how established in the past, cannot remain fixed indefinitely in the face of population and economic changes within and adjacent to the exchange boundaries. It said that a desire on the part of a few subscribers to avoid toll charges where the service is generally adequate should not be considered adequate reason, of itself, to change boundaries which have previously been established in the interest of the majority of customers of both utilities concerned.

In discussing the general principles of regulation affecting exchange boundaries, the commission reviewed the various arrangements for meeting associated problems. One such arrangement is foreign exchange service. However, it believes that under no circumstances does foreign exchange service constitute a sub-

stitute for direct service where a proper showing of public interest supports the necessity for shifting exchange boundary lines.

It does not consider that the status of such boundary lines is in any way affected by the filing of foreign exchange rates, although it does provide a new medium of meeting service needs in certain cases without consideration of adjustment of boundaries.

The commission believes foreign exchange service is not properly applicable where service is available from two or more telephone companies. Where one company has undertaken to serve outside its exchange boundary, it should continue to do so at its regular rates. In such a case foreign exchange rates may not be substituted for such service to existing subscribers. The company should not be allowed to retrench by substituting foreign exchange rates for its regular rates.

The commission believes that it has the authority to require the filing of a foreign exchange rate where it will enable the utilities involved to furnish the reasonably adequate service. In some cases failure to file such a rate may result in the commission's authorizing an invasion of territory which otherwise could be avoided.

The commission believes that there has been a failure in the state to realize the advantages offered by the furnishing of extended area service. It believes that such service should be established only where a substantial majority of the subscribers in an adjacent community desire it. It does not generally favor extended area service on an optional basis. *Wichman et al. v. Wood County Teleph. Co. et al. 2-U-3476, March 14, 1952.*

Other Important Rulings

IN granting a judgment in favor of a railroad in its action to recover switching charges from a paper company, the United States District Court pointed out that since the railroad's filed tariffs did not permit it to absorb these charges, the railroad could not do so even if some of its agents neglected to collect them. *Louisville & N. R. Co. v. St. Regis Paper Co. 102F Supp 713.*

The West Virginia Supreme Court of Appeals dismissed an appeal by interveners from a commission order granting increased water rates where their right to appeal was based only upon the question of the right to intervene, because the commission had permitted such parties to intervene and the question was moot. *Swartz et al. v. Public Service Commission et al. 68 SE2d 493.*

The Georgia commission held that, in determining a fair rate of return, income tax expense is a proper charge to operations. *Re Chickamauga Teleph. Co. File No. 19341, Docket No. 297-U, March 4, 1952.*

The supreme court of Utah upheld a commission order denying a railroad's application for authority to discontinue an agency station, except for two months of the year, and an order compelling the railroad to maintain the station for the winter months of each year, where the revenue derived from such operation was substantial and the station was located in a desolate area more than 20 miles and 50 miles, respectively, from the nearest agency stations. *Los Angeles & S. L. R. Co. v. Public Service Commission, 240 P2d 493.*

The United States Court of Appeals held that if two tariff rates apply to goods shipped in interstate commerce and there is no contest about the reasonableness of either rate, and the tariffs contain no technical words or phrases employed in a peculiar meaning, the question is not primarily one for the Interstate Commerce Commission but is a judicial question over which the court has jurisdiction in the first instance. *Bernstein Bros. Pipe & Machinery Co. v. Denver & R. G. W. R. Co. 193 F2d 441.*

The Idaho Supreme Court, in affirming a lower court judgment requiring the buyers of a motor carrier business who had defaulted on their payments, to join with the sellers in applying to the commission for a retransfer of an operating permit, ruled that the provisions in the contract relating to surrender of permits and equipment implied an agreement on the part of the buyer to do everything required to effect a complete retransfer. *Shipman v. Kloppenburg, 240 P2d 1151.*

An air carrier's petition for a partial lifting of a suspension of its letter of registration, which indicated that it had made arrangements to borrow a sum of money necessary to its operating successfully, was denied by the Civil Aeronautics Board, because the statement in the petition with regard to the repayment term of the loan was too indefinite to assure the board that the carrier would have earned sufficient profits for operating expenses before having to repay the loan. *Re New England Air Express, Docket No. 5182, March 31, 1952.*

The supreme court of Iowa held that a commission order requiring a railroad to construct an expensive mechanical warning light device at a crossing was unreasonable where the railroad had provided a flagman at the crossing and had required trains to stop before entering, because all that a railroad can be required to do is to make a crossing reasonably safe for the traveling public, and it is not required to adopt the most expensive method of achieving that result. *Chicago, R. I. & P. R. Co. v. Long, 51 NW2d 135.*

Titles and Index

Preprints in This Issue of Cases to Appear in
PUBLIC UTILITIES REPORTS

Titles

Index

Public Utilities Reports (New Series) are published in five bound volumes a year, with the PUR Annual (Index). These Reports contain the cases preprinted in the issues of PUBLIC UTILITIES FORTNIGHTLY, as well as additional cases and digests of cases. The volumes are $7.50 each; the Annual (Index) $6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

PUBLIC UTILITIES REPORTS

OREGON PUBLIC UTILITIES COMMISSIONER

Re Pacific Telephone & Telegraph Company

U-F-1614, P.U.C. Oregon Order No. 28971
January 11, 1952

INVESTIGATION *of increased rates filed by telephone company; company ordered to file rates permitting bona fide increase.*

Valuation, § 299.1 — Working capital — Taxes.

1. No working capital allowance was permitted a telephone company which had an adequate surplus of working cash available to it at all times by virtue of accruals for the payment of Federal income taxes, p. 4.

Return, § 111 — Telephones.

2. A rate of return of $7\frac{1}{2}$ per cent on the fair value of telephone property was not considered fair, just, or reasonable to the company's subscribers, p. 4

Return, § 111 — Telephones.

3. A telephone company's rate of return of 5.6 per cent on the fair value of its property used and useful in rendering public service was considered fair, just, and reasonable, p. 4.

Apportionment, § 7 — Telephone property, revenues, and expenses — Separations manual.

4. The separation of the property, revenues, and expenses of a telephone company on the basis of the NARUC Separations Manual, as modified in 1951, was adopted as being the best presently available method of separation, p. 5.

Rates, § 565 — Telephones — Public coin boxes.

5. A telephone company in need of additional revenue was directed to increase its rate for public coin-boxes from 5 to 10 cents per call, p. 5.

HELTZEL, Commissioner: This matter came on to be heard, pursuant to notice duly given, at Salem, Oregon, on September 24 and November 13, 14, 15, 16, 19, and 21, 1951, before George H. Flagg, Commissioner, and Wallace G. Mills, Assistant Attorney General, sitting as examiner.

The following appearances were made: Richard Devers, Attorney, Portland (Hart, Spencer, McCulloch, Rockwood & Davies), in behalf of the applicant; Eugene E. Laird, Special Assistant Attorney General, Salem, and Robert R. Hollis, Assistant Attorney General, Salem, in behalf of Public Utilities Commissioner of Oregon; Miss Marian C. Rushing, Chief Deputy City Attorney, Portland, Fred L. Peterson, Commissioner of Public Utilities, Portland, and Fulton Y. Magill, Consultant, Sumner, Washington, in behalf of the city of Portland; H. R. Kaiser, Technical Observer, Corvallis, in behalf of Order Repeatermen and Toll Testboardmen; E. O. Johnson, Delegate, St. Helens, in behalf of Bachelor Flat Telephone Association; E. A. Lindholm, Delegate, St. Helens, in behalf of Yankton Telephone Association.

Nature and History of Proceeding

This is a rate investigation brought pursuant to § 112–4, 134, O.C.L.A.

On August 8, 1951, the Pacific Telephone and Telegraph Company, hereinafter referred to as "Pacific," filed revised tariffs under Advice No. 331. The filed tariffs adjust basic exchange rates and other exchange rates and charges, together with certain adjustments in rates for intrastate message toll telephone and TWX services in the state of Oregon. The proposed adjustments were designed to increase the gross annual intrastate revenue of Pacific in Oregon in the amount of approximately $5,188,000 and were designed to effect an increase in the intrastate net operating income of Pacific of approximately $2,429,000.

By P.U.C. Oregon Order No. 28007, issued and effective September 4, 1951, the filed tariffs were suspended pending investigation and hearing for a period not to exceed six months. Said order further fixed the time and place of hearing for Monday, September 24, 1951, at Salem, Oregon. Said order further amended the Rules of Practice and Procedure of the Commissioner to permit Pacific to submit evidence at the hearing by affidavit pertaining to certain phases of its operations, the persons making the affidavits to be made available for cross-examination where desired by any party to the proceeding. This notice of hearing was given to all interested parties, as well as to a substantial portion of the public. The matter came on for hearing at the time and place fixed by the aforementioned order.

By agreement of all parties entering appearances, Pacific adduced evidence in support of its filed tariffs without cross-examination on the part of other parties except for matters of clarification. At the close of the evidence adduced by Pacific, the matter was recessed until November 13, 1951, to allow the preparation of cross-examination and the preparation of evidence by other parties to the proceeding. Beginning on Nevember 13, 1951, after some additional testimony was put into the record by Pacific, the witnesses of Pacific were subjected to cross-examination. Thereafter, parties to the

proceeding other than Pacific adduced evidence. Oral arguments were made at the close of the hearing. After due consideration of the evidence, the law and the arguments, the following issues, findings of fact, and order are made and entered:

Issues Involved

Heretofore a rate of return has been allowed on a rate base consisting of average telephone plant devoted to public use, less average depreciation reserve, with the addition of working capital consisting of the average materials and supplies and one-eighteenth of annual operating expenses excluding depreciation and taxes. The company contends that a return should be allowed on this same rate base in the instant proceeding. The city of Portland, on the other hand, contends that no allowance should be made for working cash for the reason that working cash has not been supplied by the investors in the securities of Pacific and should therefore not be considered in the determination of the rate base.

Pacific contends that it needs additional revenues because of the increase in the cost of labor and an increase in Federal corporate income tax from 47 per cent to 52 per cent.

Pacific further contends that it should be allowed to earn a rate of return of approximately $7\frac{1}{2}$ per cent for the reason that the cost of capital has increased to such an extent that common stock issues of Pacific must be made more attractive to prospective investors in order to enable the company to continue to raise equity capital for necessary development of the facilities of the company. The present rate of return allowed by the Commissioner is $5\frac{1}{2}$ per cent.

The position of Pacific as to separation between interstate and intrastate is founded upon the Separations Manual, as amended by the action of the Federal Communications Commission, the Bell System, and the National Association of Railroad and Utilities Commissioners at the convention of the NARUC at Charleston, South Carolina, in October, 1951. The company further made some separation adjustments which differ materially from those made by the American Telephone and Telegraph Company following the aforementioned agreed upon separation procedure. The city of Portland contends that separation should be made upon the basis of applying a deterency factor which it contends occurs when a toll charge is placed upon the use of a telephone.

Findings of Fact

Pacific is a California corporation incorporated December 31, 1906, with its principal place of business in San Francisco and is a public utility under Oregon law, as defined in § 112-401, O.C.L.A., and is subject to the jurisdiction of the Public Utilities Commissioner of Oregon. It owns and operates a telephone system situated in the states of California, Oregon, and Washington and part of the state of Idaho, furnishing both intrastate and interstate service. A wholly owned subsidiary of Pacific renders telephone service in the state of Nevada.

Pacific is one of twenty-two associated companies of the Bell System. The Bell System furnishes telephone service on a nation-wide basis through the medium of exchanges intercon-

nected by toll circuits. Through this association, independent companies and the Long Lines Department of the American Telephone and Telegraph Company, hereinafter referred to as American, extends interstate toll service to its patrons on a nation-wide basis.

Since the formation of Pacific, American has controlled it through stock ownership. American holds approximately 90 per cent of the common shares of Pacific.

[1] As to the inclusion of working capital in the rate base, it is found that materials and supplies represents invested capital. However, as to working cash, it is found that no actual working cash exists except as represented by accruals on the books of the company. It is further found that an adequate surplus of working cash is at all times available to the company by virtue of accruals for the payment of Federal income taxes. It is found, therefore, that working cash should not be included in the rate base of Pacific for rate-making purposes.

[2, 3] As heretofore pointed out, Pacific contends that it needs a rate of return of 7½ per cent. This contention is based upon a premise that because of postwar expansion the ratio of equity to borrowed capital has become unfavorable from a standpoint of the financial soundness of the company. Immediately subsequent to World War II the capital obligations of Pacific consisted of 20.9 per cent debt capital, excluding surplus, and 79.1 per cent equity capital, excluding surplus. The present capital structure of the company consists of approximately 44 per cent debt capital and 56 per cent equity capital. It is contended by Pacific that in order to attract more equity capital it is necessary that the company earn a rate of return of approximately 7½ per cent so as to bring the earnings per share to provide for approximately \$7.50 to \$8 per share in dividends with approximately \$4 per share for surplus. In other words, it is the contention of Pacific that its rates should be increased in order to increase the value of its common stock at the expense of the ratepayers.

It is found that Pacific is controlled by the American Telephone and Telegraph Company through stock ownership and that American has consistently subscribed to approximately 90 per cent of all stock issues of Pacific. Pacific has not seen fit to go to the general public to secure equity capital.

It is further found that only approximately 10 per cent of the revenues of Pacific are derived from its Oregon operations and that even if a 7½ per cent rate of return was allowed in Oregon, the over-all rate to the company would be increased by only about two-tenths of one per cent and the earnings per share of stock would increase only about 42 cents. It is obvious that the allowances of a 7½ per cent rate of return in the state of Oregon would not materially affect the ability of the company to secure equity capital. In a recent decision of the California Public Utilities Commission, Pacific was allowed a rate of return of 5.6 per cent on property used and useful in rendering telephone service in the state of California. By reason of the fact that approximately 76 per cent of the revenues of Pacific are derived from its operations in the state of California, the action of the California Commission is largely deter-

minative of the earnings position of the company as a whole. It is true, and it is found, that the cost of securing capital has increased since the issuance of P.U.C. Oregon Order No. 22180. However, a rate of return of 5.6 per cent is ample to cover the increased cost of capital. It is found, therefore, that a rate of return of $7\frac{1}{2}$ per cent on the fair value of the property of Pacific devoted to public service in the state of Oregon is neither fair nor just nor reasonable. It is further found that a rate of return of 5.6 per cent on the fair value of the property of Pacific used and useful in rendering public service in the state of Oregon is fair, just, and reasonable.

[**4**] As to methods of separation, it is found that separation should be on a nation-wide basis and should not be attempted piecemeal by the regulatory agencies of various states. This fact was recognized by the city of Portland itself. Likewise, the adjustments made by Pacific, in so far as they differ from those made by the Bell System, which have been checked and verified by the NARUC and FCC subcommittee on separations procedure are found as not meeting the test of accuracy and uniformity required. It is found, therefore, that the separation of property and of revenues and of expenses on the basis of the Separations Manual, as modified by the action taken at the NARUC convention of 1951 at Charleston, should be and is accepted and adopted as being the best presently available method of separation. It is not to be inferred from this finding that this method of separation is considered to be adequate or anywhere near adequate, but only that it is the best method presently available.

It is found that the operating expenses of Pacific have increased due to a series of wage increases. It is further found that the increase in Federal corporate income taxes from 47 per cent to 52 per cent has resulted in a situation where Pacific requires more gross revenue in order to receive an adequate net revenue after taxes. As long as taxes are based on income the ratepayer will suffer from any increased level of taxes. Although the tax is levied against Pacific it is the ratepayers of Pacific who are required to foot the bill under the present tax structure.

In order that the company may earn a rate of return of 5.6 per cent on a rate base consisting of average telephone plant devoted to public use, less average depreciation reserve, with the addition of working capital consisting of the average materials and supplies only, and using the method of separations heretofore described as being the Manual of Separations modified by the "Charleston compromise," the company will require additional gross revenues before Federal income tax and other percentage charges of $853,441 which will give additional net revenue after Federal income tax and other percentage charges of $400,264.

[**5**] It is found that the methods employed in the compilation of tariffs under Advice No. 331 are appropriate. It is particularly pointed out that the rates for public coin boxes should be increased from 5 cents to 10 cents.

Order

It is *ordered* that the tariffs as filed by The Pacific Telephone and Telegraph Company under its Advice No.

331 on August 8, 1951, to become effective September 8, 1951, be and the same are hereby permanently suspended.

It is *further ordered* that The Pacific Telephone and Telegraph Company shall file with the Public Utilities Commissioner of Oregon, subject to his approval, revised rates to reflect general increases that will bring about an additional gross annual revenue to the company of not more than $853,441.

It is *further ordered* that, as a portion of this increase, semipublic coin-box service and public coin-box service charges shall be increased from 5 cents to 10 cents to become effective as quickly as the company can obtain and install proper equipment, this increase to provide the company with an estimated annual revenue of $334,-000.

It is *further ordered* that the remaining portion of the increase, but not to exceed $519,441 annually, shall be covered by the filing of acceptable tariffs with the Public Utilities Commissioner of Oregon, the tariffs to become effective with billings to be issued on and after March 1, 1952, and the tariffs to be filed not later than February 15, 1952.

FLORIDA RAILROAD AND PUBLIC UTILITIES COMMISSION

Re Santa Fe Telephone Company Incorporated et al.

Docket Nos. 3415–TP, 3416–TP
Order No. 1744
December 27, 1951

APPLICATION *for authority to sell telephone facilities and franchises to another telephone company and for approval of selling company's discontinuance of service in the area involved; sale approved but service abandonment by selling company denied except upon subscriber's request.*

Service, § 215 — Discontinuance — Necessity of Commission authorization.

1. A telephone company may not abandon service without Commission authorization, although it does not need Commission authorization to furnish service, p. 7.

Consolidation, merger, and sale, § 6 — Commission jurisdiction — Transfer of telephone properties.

2. The Commission has jurisdiction over a telephone company's sale of part of its properties and franchises to another telephone company, p. 8.

Service, § 58 — Jurisdiction of Commission — Abandonment of service — Customer preference.

3. The Commission does not have jurisdiction to authorize one public utility

to discontinue serving satisfied customers for the sole purpose of allowing another utility to serve such subscribers, p. 8.

APPEARANCES: J. Emory Cross, Gainesville, represented Santa Fe Telephone Company, Inc.; Winston E. Arnow, Gainesville, represented B. J. Alderman, W. D. Klinepeter, and other subscribers to Southern Bell Service in the area who protested the application and demanded that Southern Bell continue to serve them; Graham W. George, Atlanta, Georgia, and Harold B. Wahl, Jacksonville, represented Southern Bell Telephone and Telegraph Company; Lewis W. Petteway, the Commission's general counsel, and Wilkins Linhart of the Commission's communication department, represented the Commission's staff.

By the COMMISSION: Santa Fe Telephone Company, Inc., and Southern Bell Telephone and Telegraph Company have each filed applications with the Commission, consolidated for hearing, wherein they seek approval of a contract for the sale and transfer by Southern Bell to Santa Fe of certain telephone plant, franchises and other property rights located within parts of Alachua, Clay, Putnam, Bradford, and Marion counties, Florida, and seek authority for Southern Bell to abandon and discontinue certain telephone service and maintenance thereof in said area upon the consummation of said sale and transfer; and Santa Fe seeks authority to continue in said area that certain telephone service which Southern Bell proposes to sell and transfer to it.

[1] Santa Fe or any other telephone company has the right under the laws of Florida to engage in telephone service outside of an incorporated municipality without any affirmative action from this Commission. It may serve a municipality under franchise granted by the municipality. So Santa Fe needs no authority from this Commission to serve the area in question.

On the other hand, under the laws of Florida Southern Bell may not abandon the telephone service which it is now giving in this area without the permission of this Commission. The Commission took jurisdiction to determine whether it was in the public interest for Southern Bell to be allowed to withdraw service and discontinue maintenance of its plant in this area.

A group of subscribers in the area involved, who are now receiving service from Southern Bell, appeared in person and through counsel at the hearing to protest the application. It was their position that they were satisfied with Southern Bell service; that they did not want Southern Bell service to be withdrawn and Santa Fe service substituted; and that the application should be denied.

Southern Bell stated its position to be that it had made the contract with Santa Fe based on Santa Fe's definite assurance that this was what the people in the area wanted; that, however, the contract specifically provided that it was subject to affirmative approval by the Commission; that Southern Bell felt that it was not itself in a position to decide the question of public interest; that the question of public

interest was a function and prerogative of, and one to be decided by, the Commission.

Santa Fe put on testimony through its officials that it has obtained a loan from Rural Electrification Administration and taken some preliminary steps toward inaugurating service.

Introduced in evidence were the charter and bylaws of Santa Fe, as well as promotional booklet used by Santa Fe in raising the equity capital required by the terms of the REA loan. While there was testimony that under certain circumstances individuals would be allowed to get service without becoming subscribers, there is no question but that under the charter and bylaws and REA regulations that there is a very definite limit to the number of individuals who can get Santa Fe service without subscribing for stock, becoming members of the corporation, and subject to the bylaws and regulations thereof. Moreover, the policy of Santa Fe is indicated by the fact that to date, except for one minister, no individual has been allowed to subscribe for service without becoming a member.

[2] At the close of Santa Fe's testimony the protestants moved to dismiss the applications. The motion alleged lack of jurisdiction in the Commission, but the Commission finds that it does have jurisdiction on the question of Southern Bell being allowed to withdraw from service. The protestants further moved to dismiss the applications on the ground that it had not been shown that it is in the public interest for Southern Bell to withdraw service from the area when its subscribers in the area object, say they are satisfied with Southern Bell service, and want it continued.

Section 610.03, among other things, provides that a corporation organized or doing business under the Laws of Florida shall have power to sell and convey all its property rights, privileges, franchises, easements, right of ways, and all other property or property rights it may possess or use provided, however, if said corporation is under the jurisdiction of the Railroad Commission, said sale shall be consented to and approved by said Commission. While this statute is intended to cover the sale of the entire property of a corporation and seeks primarily to protect minority stockholders, nevertheless, the Commission probably has jurisdiction under this statute to approve or disapprove the type of sale which is the subject matter of this proceeding.

[3] From the evidence adduced in this case, the Commission finds that Santa Fe Telephone Company, Inc., is preparing to render telephone service in a large area to persons who presently do not enjoy this convenient and necessary service. The Commission further finds that there is a great public need for the communication service which Santa Fe proposes to render; however, no showing has been made in this proceeding which would justify the Commission in authorizing Southern Bell Telephone and Telegraph Company to discontinue furnishing telephone service to its present subscribers in said area and this Commission does not feel that it has the jurisdiction or the authority to authorize one public utility to discontinue serving satisfied customers for

the sole purpose of allowing another utility to serve such subscribers.

The Commission further finds that no reasonable grounds have been made to appear upon which the Commission could predicate a refusal to approve the sale of the physical properties in the contract and agreement between the Santa Fe Telephone Company, Inc., and Southern Bell Telephone and Telegraph Company which is made a part of the pleadings in this cause. On the contrary, the Commission finds that it would be in the public interest for the Commission to approve the sale of said properties, provided said sale does not make it impossible for Southern Bell to continue serving its present subscribers in said territory who may desire said service.

Now, therefore, in consideration thereof, it is *ordered, adjudged,* and *decreed* by the Florida Railroad and Public Utilities Commission that Santa Fe Telephone Company, Inc., has the right under the Laws of Florida to engage in telephone service in the territory involved in this proceeding without any affirmative action from this Commission, subject, however, to any municipal regulation that may be involved in said territory.

It is further *ordered* that the application of Southern Bell Telephone and Telegraph Company to abandon the telephone service which it is now giving in said area be and the same is hereby denied, provided, however, said company may discontinue service to any individual subscriber in said territory upon the request of said subscriber.

It is further *ordered* that Southern Bell Telephone and Telegraph Company be and it is hereby authorized to sell to Santa Fe Telephone Company, Inc., so much of its telephone plant, franchises, and other property rights located within parts of Alachua, Clay, Putnam, Bradford, and Marion counties, Florida, and being within the territory involved in this proceeding, as may not be required for the further rendition of telephone service to its present subscribers in said territory.

It is further *ordered* that the motion of protestants to dismiss the application be and the same is hereby denied.

INDIANA PUBLIC SERVICE COMMISSION

Re Avery Telephone Company

Cause No. 23235
January 3, 1952

PETITION *by telephone company for authority to increase rates; approved.*

Return, § 112 — Telephones — Depreciation.

1. Rates which would permit a telephone company to earn a return of 6 per cent on its depreciated original cost, after a nominal rate of 3 per cent

had been applied for depreciation, were considered fair and reasonable, p. 11.

Discrimination, § 91 — Telephone rates — Preference to stockholders.

2. A provision in a telephone tariff which allowed a stockholder a 25-cent discount was ordered discontinued where it gave the false impression that stockholders were receiving a discriminatory rate, whereas in reality stockholders were required by the company's bylaws to own their own instruments and were receiving only the preference which any subscriber who owned his own instrument would receive, p. 11.

APPEARANCES: Hez Ostler, President, Avery Telephone Company, Frankfort, and Warren S. Armantrout, Secretary, Avery Telephone Company, Frankfort, for petitioner; Lloyd C. Wampler, Assistant Public Counselor, for the public.

By the COMMISSION: On November 28, 1951, the Avery Telephone Company, petitioner in the above-entitled cause, requested the Public Service Commission of Indiana to authorize it to increase its rates for telephone service to subscribers attached to its exchange.

Pursuant to notice of hearing duly published in two newspapers having general circulation and printed and published in Clinton county, Indiana, in the English language, ten days prior to date of hearing as prescribed by law, hearing was held in the rooms of the Commission, 401 State House, Indianapolis, Indiana, at 10 A. M., Monday, December 31, 1951.

The petitioner appeared at the hearing without attorney, and the assistant public counselor, Mr. Lloyd C. Wampler, placed two of the officers on the witness stand and examined them regarding the matters set forth in their petition.

Mr. Hez Ostler, president of the Avery Telephone Company, identified the petition and testified that it was the company's desire to improve their service and that the cost of service has increased due to the cost of materials and labor used in the operation of the plant.

Mr. Warren S. Armantrout, secretary of the Avery Telephone Company, was placed on the witness stand and testified as to Exhibit "A" attached to the petition which set out the operating revenues and expenses for the years 1950 and 1951.

Mr. Armantrout further testified that all expenditures were considered expenses and that the company did not keep a capital account. Exhibit "A" indicates that under this system of accounting the company's expenses were $324.95 more than the revenues for the eleven months of 1951.

A copy of the petition was introduced and received in the evidence and was marked Petitioner's Exhibit No. 1.

The public counselor then placed on the witness stand for the public, Mr. W. F. Pyle, an engineer for the Public Service Commission. Mr. Pyle testified that the estimated original cost of the petitioner's property on December 1, 1951, was $18,301 and that the estimated original cost depreciated was $11,439 as of the same date.

Mr. Pyle further testified that the

company was undergoing a reconstruction period in which they were changing their subscribers' lines from a grounded system to a metallicized system.

Mr. Pyle identified a written report, prepared by him which was marked Public's Exhibit No. 1. This exhibit was received into the evidence and made a part of the record.

Mr. Wampler also placed on the witness stand Mr. Benedict Koebel, an accountant for the Public Service Commission who identified his report of the accounting study and testified that if the company's books were set up to include a plant account, the difference between the revenues and expenses for the year 1950 would have been $470.02 and that for the eleven months of the year 1951 there would have been a difference of $77.31. Neither of these figures included an allowance for depreciation nor an allowance for a return on the capital invested in the enterprise.

Mr. Koebel also indicated in one of his studies that if the increase asked for in the amount of 50 cents per subscriber was given, it would increase the petitioner's revenues by $924 per year. This would mean that the company would be earning, minus depreciation and an allowance for return, approximately $1,000 per year.

[1] If the Commission should allow a 6 per cent return on the depreciated original cost of $11,439, it would produce an annual amount of $686.34, and if a nominal rate of 3 per cent were used for an allowance for depreciation applied against the estimated original cost of $18,141, it would produce an amount of $544.22 per year.

The two amounts added together would produce a total of $1,230.57.

In view of the petitioner's request for an increase in rates which would increase the revenues by approximately $1,000, it would appear that petitioner's request is reasonable.

[2] It was brought up in the cross-examination of petitioner's witness that there is a provision in the company's tariff that allows them to bill stockholders 25 cents less than the prevailing rate. It was also testified to that the stockholders, by reason of the bylaws, must necessarily own their own instruments and in view of the fact that the company's tariff also includes a credit of 25 cents for any subscriber who owns his own instrument, it would appear that the stockholders' provision for a credit being set out in this tariff does not add to the tariff and gives a false impression that the stockholders are receiving a discriminatory rate.

It is therefore the opinion of this Commission, and the Commission so finds that the increased rate of 50 cents per telephone is justified and that the petitioner should be authorized to place its rates in effect.

The Commission is further of the opinion and finds that the provision for allowing a stockholder a 25-cent discount should be discontinued and that the stockholders should be treated as any other subscriber.

It is therefore *ordered* by the Public Service Commission of Indiana that the Avery Telephone Company of Avery, Clinton county, Indiana, be authorized to increase its rates on January 7, 1952, by adding 50 cents to each tariff presently on file with this Commission.

It is *further ordered* that petitioner shall file with the tariff department of the Public Service Commission of Indiana their new tariff on or before January 7, 1952.

It is *further ordered* that the petitioner delete from its tariff any and all phrases indicating that the stockholders shall receive credit in their monthly rate by reason of being a stockholder.

It is *further ordered* that petitioner, the Avery Telephone Company shall pay within twenty days from the date of this order into the treasury of the state of Indiana through the secretary of this Commission the sum of $138.-02, said sum being itemized as follows:

Engineering Cost	$97.68
Accounting Cost	35.12
Cost of Publication of Legal Notice of Hearing	5.22
Total	$138.02

TENNESSEE RAILROAD AND PUBLIC UTILITIES COMMISSION

Re Southern Bell Telephone & Telegraph Company

Docket No. U-3177
January 31, 1952

APPLICATION *for authority to increase intrastate telephone rates; emergency rate increase granted.*

Apportionment, § 7 — Telephone properties — Separations Manual.

1. Use of the Separations Manual, as amended and developed over a period of years through the joint efforts of the National Association of Railroad and Utilities Commissioners, the Federal Communications Commission, and representatives of the telephone industry generally, was considered reasonable for the purpose of separating the telephone company plant used and useful in both intrastate and interstate service, in order to fix intrastate rates, p. 14.

Rates, § 152 — Reasonableness — Factors considered — Past and future conditions.

2. The Commission, in fixing rates, must consider the facts of the past, with a view to future conditions, to enable it to judge the probable future effects of particular rates, p. 17.

Rates, § 630 — Emergency rates — Telephone company.

3. A telephone company was granted an emergency rate increase of 10 per cent except on its farmer line stations and magneto exchanges, p. 17.

Rates, § 565 — Telephone rates — Coin-box service.

4. A telephone company being granted an emergency rate increase was allowed to increase the rate on coin-box or pay station facilities from 5 cents to 10 cents per local call, p. 17.

By the COMMISSION: On May 24, 1951, the Southern Bell Telephone and Telegraph Company filed with this Commission a petition seeking a revision of the existing rates presently charged on its intrastate operation in the state of Tennessee, and further seeking an increase of the Tennessee intrastate rates and charges in effect at the time of the filing of this petition. The Southern Bell Telephone and Telegraph Company will hereinafter be referred to as "petitioner" or "company."

The rates which the petitioner is presently seeking to have revised are those which were fixed and made effective by order of the Railroad and Public Utilities Commission of the state of Tennessee by its order dated May 24, 1950, in Docket No. U-2983, 84 PUR NS 65.

The Southern Bell Telephone and Telegraph Company is a corporation organized and existing under the laws of the state of New York, and duly authorized to do business in the state of Tennessee, and at the present time is engaged in rendering telephone service in the state of Tennessee. It is the largest company engaged in the telephone business in the state of Tennessee, and at the date of the filing of the petition was serving approximately 581,000 subscribers within the state.

The increase sought by the petitioner in this cause which is Commission Docket No. U-3177 would have amounted to approximately $6,554,120 in increased revenues to the company. After the filing of the petition by the company an order was issued by the Commission requiring the company to file exhibits which it proposed to use in support of its petition in the hearing, and the company duly filed said exhibits with some few exceptions in advance of the hearing. The exhibits which were not filed at this time were filed at a later date by the company. This matter was set down for hearing by the Commission on August 20, 1951, and was begun on that date. The hearing continued through August 21, 1951, when the same was adjourned until October 2, 1951; thereafter the hearing of this cause was resumed and finally closed after a subsequent adjournment on the 30th day of November, 1951.

The company in support of its petition filed numerous and comprehensive exhibits as to all phases of its operation in the state of Tennessee and further filed exhibits covering its relationship to the American Telephone and Telegraph Company and to the other related companies of the Bell System in the United States.

Intrastate Rate Base

The Commission by its order of May 24, 1950, in Docket No. U-2983, *supra*, established a rate base for the Southern Bell Telephone and Telegraph Company operating within the state of Tennessee. This rate base was established as a result of the testimony and from all of the record in the case numbered Docket U-2983, *supra*. Many exhibits were offered by the company and much testimony was introduced into the record by the company in the present case in which the company attempted to show that its revenues presently derived from its intrasate operations in Tennessee as a result of the aforesaid order in Docket No. U-2983, *supra*, were for the reasons hereinafter delineated insufficient

for the successful operation of the company, and give the company a fair rate of return on its investment used and useful in its intrastate service in Tennessee. The company in the presentation of its petition relied primarily on the following contentions and much proof was offered in support of same:

1. That since the effective date of the Commission's order in Docket No. U–2983, *supra,* which order authorized certain rate increases to the company, the basic wage rates paid to the company employees have increased approximately 12.3 per cent, which increase the company alleges cost it on an annualized basis an additional expense of $1,800,000.

2. That there has been a substantial increase in taxes of all kinds paid by the company since the effective date of the Commission's order in Docket No. U–2983, heretofore mentioned, which increase the company estimates will be $2,158,000.

3. That the prices of materials and supplies used in the business of rendering telephone service in Tennessee have substantially increased since the effective date of the order of the Commission in Docket No. U–2983 heretofore mentioned.

4. That the cost of procuring capital needed in the operation and expansion of the company's facilities in Tennessee had increased since the effective date of the order in Docket No. U–2983 heretofore mentioned.

5. That due to investments in expansion and more modern equipment the value of company's properties in Tennessee had been increased by a substantial amount since the order in Docket No. U–2983, *supra.*

The company in support of its petition in this cause offered numerous and comprehensive exhibits and much testimony touching upon every phase of its operation in Tennessee and in the Bell System as a whole with particular emphasis on its Tennessee operation.

The company's principal witnesses were subjected to a thorough and exhaustive cross-examination by Commission counsel. The Commission then offered the testimony of experts not connected with the company concerning the subjects of depreciation and separations which were subjects introduced in the case by the company in support of its petition. These experts having been furnished with the exhibits and testimony in support thereof by company witnesses made studies and analyses of said exhibits and testimony and then offered exhibits and proof of their own concerning the same.

Separations

[1] It developed from the hearing that a great portion of the company's plant in Tennessee is used and useful both in intrastate and interstate service and that to obtain operating results from these services separately it is necessary that extensive and exhaustive studies be made. The operating results figures submitted by the company in this case are those which resulted from the application of separation procedures which are set forth in a "Separations Manual" filed as an exhibit to this record and explained and discussed by company witness, A. I. Groce. This manual has been developed over a period of years through the joint efforts of the National Asso-

ciation of Railroad and Utilities Commissioners, the Federal Communications Commission, and representatives of the telephone industry generally. The formula derived therefrom is a product of years of technical study. It has been in use on an experimental basis since its inception as recently as the meeting of the National Association of Railroad and Utilities Commissioners in Charleston, South Carolina, in October, 1951. This Separations Manual was revised so that its application to the company's properties in the territory wherein it operates, as well as its application to all American Telephone and Telegraph subsidiary telephone companies in the United States, would reduce the value of intrastate property and increase the value of interstate property, the effect of that amendment or change would put some $375,000 to $400,000 worth of Southern Bell Telephone and Telegraph Company's properties in Tennessee, used and useful in intrastate services, in the interstate service properties. The witness Honaker, who appeared on behalf of the state at the instance of this Commission, gave testimony on further changes in this Separations Manual, which if proven to be correct would further reduce the rate base of the company in Tennessee by several hundred thousand dollars. The Commission is not entirely satisfied with all of the results derived from the application of the Separations Manual, as amended, to the properties of the company, since it is a product of experience and compromise and is subject to further change and modification. It is a subject which is under continual study and while it does not appear to be perfect it appears to the Commission that it is a reasonable approach to the subject at the present time and produces for the most part reasonable results, as such results might be related to the order this Commission is now making in this case. It appears from the record and from the testimony of witnesses for the company and other witnesses that there exists a need in the country as a whole for uniformity in the application of separations formulæ and that the Separations Manual and the procedures therein heretofore mentioned present a logical method of approach and have been widely used.

At the different hearings on applications of Southern Bell Telephone and Telegraph Company for rate increases it has been made known from the testimony and documentary evidence that the Long Lines Department of the parent company, American Telephone and Telegraph Company, operates the long lines out of Memphis, Tennessee, which is the largest city in the state of Tennessee, located in the extreme southwest corner of the state, and that by contract between Southern Bell Telephone and Telegraph Company and the Long Lines Department for the services rendered Southern Bell Telephone and Telegraph Company by the Long Lines Department, Southern Bell Telephone and Telegraph Company is required to pay 40 cents for every intrastate toll message originating in Memphis, Tennessee, and for all such other toll messages originating in Memphis as Southern Bell Telephone and Telegraph Company is privileged to handle in accordance with the terms of said contract.

The Commission has not been able to determine whether or not such

arrangement is a burden upon the intrastate operations of Southern Bell Telephone and Telegraph Company within the state of Tennessee, and it desires to have other and further knowledge with respect to that contract, the revenues derived therefrom and the particular services and properties furnished by each of the contracting parties therefor.

Depreciation

The company introduced into the record at this hearing numerous detailed exhibits and much proof was offered to explain these exhibits concerning the subject of depreciation of its depreciable properties used and useful in rendering telephone service in Tennessee. These company witnesses were subjected to a thorough cross-examination by Commission counsel and the exhibits offered by the company and proof offered by their witnesses in support thereof were studied by Commission counsel and staff and such questions, as were put, touched on and probed this subject.

The witness Hansell, who appeared and testified for the state at the instance of the Commission, gave testimony rebutting that of the witnesses for the company and filed exhibits in explanation of his testimony which, if adopted in its entirety, would change the rates of depreciation used by the company and which it contends are the rates prescribed by the Federal Communications Commission. The Commission is not entirely satisfied that the rates of depreciation used by the company are in every respect correct, nor is the Commission prepared to agree in every instance with the amount of depreciation contended for by this witness Hansell. In considering this matter of depreciation, as it may relate to the order which the Commission is now making in this case, the Commission realizes that the rates used by the company's witnesses as applied to its several classes of properties are the rates which the Federal Communications Commission has established as proper to apply to the properties of the company, used and useful in interstate service and not finding it necessary for the purpose of this hearing and the order of the Commission at this time, and being of the opinion that the order will in no great way reflect any departure from the rates of depreciation heretofore considered by this Commission as properly related to the company's properties in Tennessee for intrastate purposes, is satisfied to leave undetermined any exact amount of depreciation applicable to the company's properties in Tennessee.

The Railroad and Public Utilities Commission Act of the state of Tennessee, which the Commission is charged with enforcing, declares in part that:

"(c) *Rates, etc., fixed.*—After hearing upon notice, by order in writing, to fix just and reasonable individual rates, joint rates, tolls, fares, charges, or schedules thereof, as well as commutation, mileage, and other special rates which shall be imposed, observed, and followed thereafter by any public utility as herein defined, whenever the Commission shall determine any existing individual rate, joint rate, toll, fare, charge, or schedule thereof or commutation, mileage, or other special rates to be unjust, unreasonable, excessive, insufficient, or un-

justly discriminatory, or preferential, howsoever the same may have heretofore been fixed or established.

"(d) *Schedules of classifications and rates.*—To require every such public utility to file with it complete schedules of every classification employed and of every individual or joint rate, toll, fare, or charge made or exacted by it for any product supplied or service rendered within this state as specified in such requirement.

"(e) *Standards, classifications, etc.*—After hearing, by order in writing, to fix just and reasonable standards, classifications, regulations, practices, or services to be furnished, imposed, observed, and followed thereafter by any public utility." (Williams Tennessee Code, Annotated, § 5450, Subsections c, d, and e.)

[2] The Commission recognizes the fact that rate fixing is necessarily for the future. Exact results can never be foretold, and if rate regulation and rate fixing are to be based on something more than a guess or a prediction the Commission must consider the facts of the past with a view to future conditions to enable it to judge the probable future effects of particular rates. The Commission has given weight and consideration to the past experience of the company in arriving at a just and reasonable rate to be fixed and the Commission also has given consideration to all relevant changes in the operating factors now in existence and those which can reasonably be foreseen from past experience of the company which were adduced at the hearing.

[3, 4] From a consideration of all of the foregoing and from a study and consideration of all of the record in this cause the Commission is of the opinion that, with the exceptions hereinafter noted, an emergency increase of 10 per cent in the existing rates and charges on intrastate service rendered by the company in Tennessee to be necessary to assure the company a just and reasonable return on its properties devoted to the rendition of intrastate telephone service in Tennessee.

The Commission is further of the opinion that in applying the aforesaid 10 per cent increase to the intrastate toll rates in Tennessee, the 10 per cent when applied will be the nearest 5 cents and when the increase is $2\frac{1}{2}$ cents the rate shall be the next lowest 5 cents. The overtime rate on station-to-station toll rates will be one-third of the initial period rate calculated to the next lowest 5 cents. The overtime rate on person-to-person toll rates will be one-third of the initial period rate to the next lowest 5 cents for the first three minutes of overtime, after which the overtime rate will revert to the overtime rate applicable to station-to-station calls.

In applying the 10 per cent increase to local exchange service and equipment (except line mileage), where a rate falls between the multiples of 5 cents, these rates of $2\frac{1}{2}$ cents or over shall be the next highest 5 cents. Where these rates are below $2\frac{1}{2}$ cents the rate shall be the next lowest 5 cents.

The exceptions above referred to are as follows:

1. There shall be no increase in the existing rates and charges made by the company for stations being served and designated as "farmer line stations" and sometimes referred to as "service stations."

2. There should be no increase in the local exchange rates and charges for local exchange service at the presently operated magneto exchanges in Tennessee.

It is recognized by the Commission that the company is entitled to a greater return for the better types of service offered by the company, and it is, therefore, the opinion of the Commission that at such time as the exchanges of the company presently designated as "magneto exchanges" shall be converted or changed to a modern and improved type of service that the company should at that time be allowed to charge rates commensurate with its service and in line with and equal to the rates charged for similar types of service in comparable exchanges, and it is further the opinion of the Commission that the company should notify the Commission of such conversions and file with the Commission tariffs in accordance with the above.

3. The company has recently constructed and established new exchanges to serve certain towns and communities within the state of Tennessee, and charges rates for this service which were established as a result of the filing of special tariffs. These tariffs have been approved by the Commission. The rates and charges heretofore mentioned for "main station service" established by said tariffs generally are higher than the other comparable exchanges within the state and the Commission is of the opinion that there should be no increase in these main station rates at this time. The exchanges above referred to are (1) Decatur, Tennessee, (2) Huntland, Tennessee, and (3) Greenback, Tennessee.

4. The Commission is of the opinion that the company should be permitted to make such changes as it deems necessary in order to increase the rate on "coin-box" or "pay station" facilities in Tennessee from the existing rate of 5 cents per local call to 10 cents per local call.

NEW MEXICO PUBLIC SERVICE COMMISSION

Re Community Public Service Company

Case No. 348
December 18, 1951

APPLICATION *by electric company for authority to increase rates; application granted.*

Return, § 87 — Electric company.

1. Proposed electric rates that would yield a return of 6.13 per cent were considered fair and reasonable, p. 21

Rates, § 303 — Fuel adjustment clause — Residential customers — Electric company.

2. An electric company's proposed fuel adjustment clause was approved in the case of industrial users but denied in the case of commercial or residential users, p. 21.

Rates, § 321 — Electric — Company responsibility to reduce rates.

Statement that although proposed electric rates were reasonable and the company served mountainous territory and sparsely settled communities, rates charged per kilowatt hour were disproportionately high compared to rates charged by other electric utilities and that the company should overlook no economies of operation and should endeavor to increase its load factor by leaving no steps untaken to increase the sale of energy, p. 21.

By the COMMISSION: The Community Public Service Company (hereinafter called the company), a Delaware corporation and a public utility within the meaning of the Public Utility Act, Chap 84, Laws of 1941, and amendments thereto, filed an appropriate petition with the Commission on October 22, 1951, in which petitioner seeks the requisite authority and approval of this Commission to place in effect new rate schedules in all communities served by the company in New Mexico, that will provide for an increase of 10 per cent in electric service charges for residential service and 15 per cent in electric service charges for commercial and industrial service, said increases to provide approximately $144,334.66 additional annual revenues for their New Mexico operations, of which $67,611.59 is retained by the company and $76,723.07 is paid in income taxes.

Pursuant to appropriate notice, formal hearing was held on Community Public Service Company's petition in Room 29, State Capitol building, on November 26, 1951.

APPEARANCES: N. R. Parsons, Vice President and Treasurer, Fort Worth, Texas; H. L. Stout, Vice President and Assistant Secretary, Fort Worth, Texas; Bennett L. Smith, Secretary and Attorney, Fort Worth, Texas; George Johnson, Division Manager, Silver City, for the Company; Robert Fox, Consumers Counsel, Santa Fe, for the consumers; L. W. Leibrand, Chairman, F. Wayne Laws, Commissioner, Don R. Casados, Commissioner, E. F. Carter, Chief of Operations, and James B. Cooney, Assistant Attorney General, for the Commission.

The petition of Community Public Service Company was predicated solely upon what the company contends are the actual dollar needs to cover increases in cost of materials, labor, and increased taxes necessary to operate the system.

Petitioner stated that no immediate additions or extensions of production facilities are contemplated in New Mexico, assuming peak load requirements will be cared for without increasing system capacity.

Petitioner further contends that their present rate of return does not exceed 4.73 per cent and that with the increase requested it will not exceed

6.13 per cent. Petitioner also sets forth that operating income upon which the rate of return is based, is used to pay interest on first mortgage bonds, debentures, other interest, amortization accounts, and common stock dividends, and any remainder is plowed back into construction costs.

Petitioner also sets forth that the increase in rates requested is not to bring the rate of return up to the rate of return allowable by regulatory authorities, but it is the hope of petitioner that the increase in revenues will make up at least part of the deficiencies in net revenues which they have suffered as a result of increased material costs, labor costs, and increased taxes. The approval requested of the Commission is for the very least amount which petitioner feels is necessary to maintain the confidence of investors in the company.

The Commission received formal written protest passed by the town council, Silver City, New Mexico, dated November 22, 1951, in which protest was made against the granting of the increase in electric rates requested for domestic, commercial, and industrial service.

The Commission also received a written withdrawal of protest, passed by the town council of Silver City, New Mexico, dated November 24, 1951, in which they withdrew the protest previously filed and consented to the proposed increase requested by petitioner.

Community Public Service Company presented three witnesses in support of their petition. Mr. N. R. Parsons, vice president and treasurer, presented a general statement regarding their needs for additional revenues to partially offset the increases in cost of materials, labor, and increased taxes necessary to operate the system. He also filed a written copy of his statement for review of the Commission, which gives a background of the company's history and development in New Mexico, including production facilities, transmission lines, communities and territory served, including substations and distribution systems. He also elaborated on the company's capital structure and its method of financing. He also explained what the company has done and was doing in the way of supplying a portion of the electric energy required by the Bureau of Reclamation to enable them to supply electric energy to REA Co-operatives and municipalities with whom they have contracts for power supply. If it were not for the foresightedness of Community Public Service Company and El Paso Electric Company in installing adequate production plants from which the Bureau obtains their entire supply of power, they would not be able to carry out their contracts with the REA co-operatives and municipalities they presently serve.

The substance of the testimony of Mr. Parsons was to the effect that the value of the electric plant and property in service within the state of New Mexico as of August 31, 1951, amounted to $5,175,263.49. Accrued Reserve for Depreciation in the amount of $820,505.08, and Contributions in Aid of Construction amounting to $13,936.32, making an aggregate of $834,441.40, reducing total electric plant and property in service to the amount of $4,340,822.09. To this total the following items were added:

Allowance for Reproduction Cost, New	$258,066.36
Materials and Supplies	117,931.98
Prepayments	19,749.38
Working Capital	77,980.86
making total additions of	$473,728.58

giving a total value for rate base of $4,814,550.67.

Mr. Parsons testified further that the expected net operating income to be realized upon the constructed year upon the application of the new rates, would amount to $295,353, indicating a rate of return upon the rate base of 6.13 per cent.

The Commission finds that the company has maintained books of accounts in conformity with the regulations of this Commission and that the cost of electric plant and property in service represents the actual historical cost thereof, less Accrued Reserve for Depreciation and Contributions in Aid of Construction. Therefore, the Commission finds that the valuation of the property of the company within the state of New Mexico for rate-making purposes amounts to $4,814,550.67.

[1] The Commission further finds that for the constructed year the effect of the new rates will be to leave net income available to the company in the amount of $295,353, indicating a rate of return of 6.13 per cent.

Mr. H. L. Stout, vice president and assistant secretary of the company, testified in substance as to effect of the proposed rates within the respective communities served by the company.

Mr. George Johnson, division manager for the company at Silver City, New Mexico, testified as to the general operations of the company in that area and elsewhere within the state of New Mexico.

[2] The Commission finds that the rates proposed to be put into effect by the company are fair to the utility and to the consumers alike, subject to the further statements hereinafter made. The Commission notes, however, that the rates proposed by the company contain a provision making such rates conditional for all users of service upon the cost of fuel to the company. The Commission approves such provision in the case of industrial users but denies the company the right to apply the fuel adjustment provision to commercial or residential users. The company is therefore ordered to file new rates and tariffs with this Commission within ten days from the date of this order consistent with the views herein expressed.

The Commission would like to point out that while the matter of rates to be charged is a matter of management decision, subject to regulatory power of this Commission, and while the rates to be charged indicate a rate of return to the company which is not at all excessive when compared to the returns enjoyed by comparable utilities within the state and within this territory, nevertheless the Commission would be remiss in its duties if it failed to note that the rate per kilowatt hour charged residential and commercial users is disproportionately high compared to the rates charged residential and commercial users by other utilities within the state of New Mexico. The Commission is well aware of the fact that the company renders service in mountainous territory and over a considerable distance, in sparsely populated sections, and the Commission is well aware that rendering service under such conditions will of necessity prove to be more expensive than the

rendition of service in heavily populated, compact areas, nevertheless, the Commission desires that the management will do its utmost to take whatever steps may be necessary to bring its rate per kilowatt hour for residential and commercial users more into line with rates being charged by other utilities. The Commission realizes that the most effective method of accomplishing this happy result would be to increase the load factor and the Commission urges the management of this company to leave no steps untaken to increase the sale of electric power to the end that the increased revenues which might be available through the increased sale of energy will eventually permit the rates to be brought down to what might be deemed average level for such service. The Commission urges the management, therefore, to overlook no economies in its operations, as a further means of attaining this desirable objective and the Commission takes this means of declaring that in the interest of fairness to the consumers, utilities should take every step possible to expand markets and to effect economies to the end that utility service may be furnished to customers at the least cost possible consistent with a fair return to the utility.

The Commission has considered only the company's New Mexico properties and operations in fixing rates in the foregoing findings, except to the extent necessary to satisfy itself that other operations and expenses of the company in Texas, in which petitioner operates, are not being allowed to prejudice its New Mexico consumers.

The Commission therefore concludes:

I

That it has jurisdiction over the matters and things presented by petitioner, and has jurisdiction over the rates to be charged by Community Public Service Company in this state.

II

That the hearing in this case was lawfully ordered by notice duly given to all parties in interest.

The Commission therefore *orders*:

1. That the valuation of the property of the company for rate-making purposes within the state of New Mexico be, and the same is hereby declared to be, the sum of $4,814,550.67.

2. That new rate schedules shall be filed by the company within ten days of the date of this order for residential service, which shall provide for an increase of 10 per cent over the present scheduled rates for residential service and 15 per cent over the present scheduled rates for commercial and industrial service; that the residential and commercial rates are not to be subject to the fuel adjustment clause, whereas approval is herein granted for the application of the fuel adjustment clause on the schedule of rates applicable to industrial users.

3. That the proposed new rates to be filed shall, when applied on an annual basis, result in an increase of approximately $144,334.66 in annual revenues.

4. That the rates herein approved by the Commission, as indicated herein, are declared to be fair to the utility and to the consumers alike.

5. That the foregoing schedules of rates to be filed shall be made effective on all billings to be rendered on and after January 1, 1952.

NEW JERSEY BOARD OF PUBLIC UTILITY COMMISSIONERS

Re Bernards Water Company

Docket No. 5652
January 16, 1952

INVESTIGATION *of proposed water rate increase; proposed rates disapproved and rate increase authorized.*

Valuation, § 225 — Rate base determination — Proposed construction.

1. Proposed construction should be excluded from a water company's rate base where nothing in the record reflects the benefits that might accrue to the company in the form of increased revenues resulting from the proposed installations or the decreased expenses resulting from the newer and more efficient installations, p. 24.

Expenses, § 99 — Proposed wage increase.

2. A proposed wage increase which is subject to approval by the Wage Stabilization Board should not be allowed as an operating expense for rate-making purposes where there is no proof that such increase will receive the Board's approval, p. 25.

Expenses, § 144 — Water company — Cost of flouridation program.

3. Increased expenses in connection with a water company's proposed flouridation program should not be included for rate-making purposes where the record fails to show that the company is ready to proceed with the program, p. 25.

Return, § 115 — Water company.

4. A return of 5.9 per cent was considered fair and reasonable for a water company, p. 26.

APPEARANCES: Joseph F. Autenrieth and John H. Murdoch, Jr., for The Bernards Water Company; A. A. Palmer, Jr., for the Borough of Bernardsville; Anthony P. Kearns, for the township of Bernards, Robert A. Hitch, for the Veterans Administration.

By the COMMISSION: The Bernards Water Company (hereinafter sometimes referred to as company) filed under date of June 20, 1951, increased rates for water service to all classes of customers, to become effective July 20, 1951. The company estimates that the effect of the proposed rates would be to increase annual operating revenues by approximately $38,360 based on the 12-month period ended June 30, 1951.

The Board suspended the proposed rates and fixed September 26, 1951, as the date for hearing. The order of suspension issued by the Board required that the company give notice to its customers of the proposed increases and of the date fixed for hearing. The record shows that such requirement of

notice was complied with. Hearings were held on October 31, and December 4, 1951, at Newark. Appearances are shown *supra*.

The necessity of increased rates is stated in the company's filing as follows:

". . . because of increased operating expenses, taxes, and other revenue deductions. Such increased revenues are also required because of the necessity of maintaining the company's credit in view of the increase in net investment in fixed capital. . . ."

The company produced a real estate broker, who testified as to the fair market value of land and an engineer who testified as to the reproduction cost new, less depreciation, of the other property used by the company. The president of the company testified as to the territory served, source of supply, facilities, and method of operation. The comptroller of the company testified as to the balance sheets, present and prospective level of revenues and expenses, and procedures and methods of accounting control. The treasurer of the company testified as to the cost of money and fair rate of return. The assistant chief engineer of American Water Works Service Company, Inc. (which performs certain services, including engineering, on the cost basis) testified as to the future construction requirements of the company.

The company was organized in 1903. Presently the company provides water service for domestic, commercial, and industrial use and for public fire protection in the borough of Bernardsville and the township of Bernards. As of June 30, 1951, the company served approximately 1,720 customers.

The present rates have been in effect since January 1, 1948, following the Board's decision dated December 17, 1947, Docket No. 3416.

Rate Base

[1] Testimony and exhibits were submitted with respect to the fair market value of land as of August, 1951, and the reproduction cost new, less observed depreciation of structures and equipment, based upon prices at December 31, 1950. The total value on this basis is stated at $1,531,391. The record shows that the witness, in developing the reproduction cost estimate, included items of property that have been paid for by customers, as well as an item of $98,000 for going concern value which the witness admitted was not the result of any study made for this case.

The witness also testified that he priced all items of property which he found to be in place and which he considered used and useful. He admitted that his cost of reproduction estimate reflected a theoretical reproduction of something which, if it did not already exist, would not be reproduced in its present form and location. Under the reproduction cost theory presented by the company, the customer is in effect asked to pay a return on a rate base purporting to reflect current costs of materials and labor involved in installing existing facilities, while no provision is made for the customer to receive the advantages obtainable from the type of facilities that would be installed today but which cannot be realized from existing facilities. The witness testified that various factors

were considered by him in developing the "accrued depreciation." However, the record does not disclose the method, manner, and amount used by the witness to specifically develop the "accrued depreciation" shown in his exhibits.

The Board has carefully considered the evidence adduced by the company as to cost of reproduction and related depreciation, and it is of the opinion that the evidence as to the cost of reproduction under the circumstances in this case is not sufficient, and is entitled to little weight, if any, in determining rate base.

The record in this case, specifically on page 4 of the company's filing, states, "As of March 31, 1951, the rate base calculated in the same way as that calculated in Exhibit P–1, at Docket No. 3416, would be $578,368.-25 . . . ." Furthermore, the company has introduced balance sheets from which a net investment rate base can be calculated.

In addition to the foregoing, the company claims consideration for its construction program covering the 5-year period from 1952 to 1956, inclusive, at an estimated expenditure of $350,000. However, since there is nothing in the record to reflect the benefits that may accrue to the company in the form of increased revenues (resulting from the proposed installations) or the decreased expenses (resulting from the newer and more efficient installations) as a result of the proposed construction program, if in fact it is carried out as planned, the Board will not include any allowance for the proposed program in its determination of rate base.

On the record here the Board will accordingly proceed to compute rate base, namely, on the net investment basis, by considering plant in service including an allowance for materials and supplies and cash working capital.

Giving effect to its conclusions aforementioned, the Board finds that the fair and reasonable average rate base for the year 1951 amounts to $579,000.

Operating Income

[**2, 3**] The company's comptroller, H. M. Iverson, introduced Exhibit P–16, which indicates that actual operating income for the 12-month period ended June 30, 1951, was $16,-553. After giving consideration to certain increased revenues and expenses that were not in effect for the full 12-month period ended June 30, 1951, the pro forma operating income is stated at $12,106 under present rates and $38,768 under the proposed rates.

Among the items of increased expense is an amount for increased wages and fringe benefits, which are subject to approval by the Wage Stabilization Board. Inasmuch as there is no proof that such wage increases and fringe benefits will receive approval, we will not allow such increases as a charge in operating expenses for the purposes of this case.

Another item included in Exhibit P–16 is for increased expenses in connection with a proposed flouridation program. The record in this connection fails to show that the company is ready to proceed with this program and therefore this item of expense will be disallowed.

Mr. Iverson also testified that the company files a consolidated income

tax return with its parent and affiliates. This consolidated filing results in a saving of 15 per cent of the tax that would apply if the company were to file on an individual return basis. He, however, did not reflect this income tax saving in his computations. In making our calculations for the purpose of establishing the level of operating income consistent with our policy and discussion at pages 340 and 341 of the New Jersey Power & Light Company decision, dated April 27, 1951, Docket No. 5121, 91 PUR NS 331, we will make adjustments to reflect one half of the tax savings from the consolidated filing at present tax rates.

After the adjustments referred to above, we estimate that the annual operating income under present rates will be $16,300 and $41,650 under the proposed rates.

Rate of Return

[**4**] Testimony as to fair rate of return was presented by the company's treasurer, M. A. Anderson. He testified that a rate of return between 6.6 per cent and 6.9 per cent would be fair. In arriving at this rate, he assumed a capitalization of 60 per cent bonds, 15 per cent preferred stock, and 25 per cent common equity. His conclusions as to fair rate of return were based upon studies of the cost of money to certain other water companies, adjusted upwards to provide an allowance for the smaller size of The Bernards Water Company. To the resultant cost of money of 5.945 per cent, he then adds $\frac{3}{4}$ per cent to one per cent as "Allowance to encourage good management and efficient operation, to permit company to maintain and support its credit, and to enable it to attract capital for the proper discharge of its public duties."

In his direct testimony, he refers frequently to the fact that the cost of money for a small company is greater than for a large company. However, the witness does not indicate the effect of size on the cost of money to the companies set forth on his Exhibit P–23.

The common stock of The Bernards Water Company is owned by Commonwealth Water & Light Company, which company is in turn controlled by American Water Works Company, Inc., a subsidiary of Northeastern Water Company. Since none of the stock of The Bernards Water Company is held publicly, market quotations cannot be obtained. On Exhibit P–23 an attempt is made by the witness to show the cost of money for the company by a comparison with the cost of money of other water companies having "publicly" held securities. He admits that "exact comparisons are difficult to make" but does not indicate the evaluation made for circumstances or factors which differ from those of this company. All of the companies which he used are larger, few were shown to have such involved affiliate relationships, and some admittedly furnished other types of utility service in addition to water.

The witness shows at page 7 of Exhibit P–23 an interest rate of $3\frac{3}{4}$ per cent for bonds, a $5\frac{1}{2}$ per cent dividend rate on preferred stock, and 11 per cent return on common equity. These rates are exclusive of financing expenses. In support of the individual interest and dividend rates the witness relies upon the other information presented in Exhibit P–23. We have previously indicated some general

weaknesses in the exhibit. At pages 1 and 2 of Exhibit P–23 the witness presents information with regard to interest cost of publicly held long-term bonds and first mortgage bonds. None of the companies listed in the exhibit show rates as high as 3.75 per cent. At pages 3 and 4 the witness shows information with regard to certain preferred stocks issued by some operating water companies and which are used as a basis to compute cost of preferred stock capital. However, the witness has included convertible issues notwithstanding the fact that such convertible issues are not included in his specific calculation of cost of money and fair rate of return applicable to the company. At pages 5 and 6 of Exhibit P–23 the witness shows the companies upon which he based his judgment as to the cost of equity. Upon cross-examination it was developed that the market price and the yield reported for Middlesex Water Company were in error and that such error would change the median and average yields which were used as a basis for the calculation of the witness' cost of money and fair rate of return. For these reasons we will not accord much weight to the conclusions drawn by the witness in Exhibit P–23.

Based upon a consideration of the entire record, together with our knowledge of the territory served, the size of the company, the corporate relationship, and its financing requirements, we conclude that a rate of return of 5.9 per cent on the rate base hereinbefore indicated is fair and reasonable.

Conclusion

As hereinbefore set forth, the amount available for return under present rates is equivalent to a rate of return of approximately 2.8 per cent on the Board's finding as to rate base. In the opinion of the Board such a rate of return is inadequate. Therefore, the present rates are unjust and unreasonable in that they fail to afford an opportunity to earn a fair return.

The company estimates that the proposed rates are expected to produce additional annual revenues of approximately $38,360. After giving due consideration to such additional revenues, related state franchise taxes as well as Federal income taxes based on current rates, and our adjustments, it appears that the company's proposed rates would produce an operating income of approximately $41,650. This is equivalent to a rate of return of approximately 7.2 per cent on the Board's finding as to rate base. In the opinion of the Board, such a rate of return is excessive under the circumstances here.

From the foregoing it appears that the company is entitled to an increase in rates but not as large an increase as that proposed by it. The amount of additional revenue required to yield a rate of return of 5.9 per cent on the rate base adopted herein, after giving effect to related additional state franchise taxes and Federal income taxes, is $26,000.

On the basis of the foregoing considerations the Board *finds* and *determines:*

(1) That the existing schedule of rates is unjust and unreasonable in that it does not afford the company an opportunity to earn a fair return.

(2) That the rates proposed by the company are unjust and unreasonable and would yield an excessive return

and that such rates are therefore *hereby disapproved.*

(3) That a schedule of rates, which, on the basis of the number of customers at December 31, 1951, will produce annual operating revenues which will exceed 1951 revenues by $26,000, is just and reasonable.

(4) That the company shall submit for the consideration of the Board, within ten days of the date of this decision, a revised schedule of rates so designed as to produce an increase in annual operating revenues of not more than $26,000, as more particularly set forth in paragraph (3) above.

The revised schedule of rates is to be effective with bills rendered in the regular course of business on and after February 1, 1952, covering use of water subsequent to January, 1952, meter readings.

GEORGIA PUBLIC SERVICE COMMISSION

Re Georgia Gas Company

File No. 19392, Docket No. 278-U
January 8, 1952

APPLICATION *for authority to issue first mortgage bonds and preferred stock; granted.*

Corporations, § 18 — Voting power distribution.

1. Common stock representing a total investment of $25,000 in the equity capital of a gas company having a total capitalization of approximately $700,000 was considered inadequate since the common stock was the only voting stock of the company, thereby exercising complete control, p. 30.

Accounting, § 21 — Discount on capital stock — Amortization of discount.

2. A discount upon the sale of preferred stock, in lieu of the payment of dividends for the first two years, should be recorded in the Discount on Capital Stock Account and amortized over the shortest period feasible, since the amortization in effect will have the same end result as would occur if the stock had been issued at $100 per share and dividends paid from the date of issuance, p. 31.

Security issues, § 87 — Amount — Partial issuance.

3. The Commission, in passing upon an application for authority to issue preferred stock, will authorize only that amount which is to be issued and sold in the immediate future, p. 32.

APPEARANCES: E. D. Kenyon, Attorney, and Arthur K. Lee, President, for the company; N. Knowles Davis, Chief Engineer, and Frank G. Heald, Utilities Auditor, for the Commission.

By the COMMISSION: Georgia Gas Company on December 12, 1951, filed an application with the Commission in which authority is requested to issue and sell $435,000 principal amount of petitioner's first mortgage sinking-fund

bonds, 5 per cent, series A, to be issued under and secured by an indenture of mortgage to the City National Bank and Trust Company of Chicago and John S. Crossley, as Trustees, and for authority to issue and sell 3,000 shares of $6 dividend preferred stock. This application was assigned for hearing before the Commission on December 19, 1951, when it came on to be heard. Georgia Gas Company was directed to publish notice of the time, place, and purpose of the hearing, and it appears that such notice was published in the December 12, 1951, issue of the Gainesville Daily Times.

According to the application, the applicant proposes to provide natural gas service in Gainesville, Georgia, in lieu of the present butane-air service now supplied. Applicant has presently issued and outstanding 250 shares of common stock with a par value of $100 per share and 247 shares of said stock are presently owned by United Cities Utilities Company, a Delaware corporation. Applicant has presently issued and outstanding $39,000 aggregate principal amount of its first mortgage 5 per cent serial bonds, series A, the interest on which was reduced from 5 per cent to 3¾ per cent, pursuant to authority from the Commission by order dated December 31, 1946. As of September 30, 1951, applicant had notes payable outstanding in the amount of $20,840.50 to the Gainesville National Bank, Gainesville, Georgia, notes payable to United Cities Utilities Company in the amount of $28,004.50, and accounts payable to that company in the amount of $657.63.

The application further states that the proceeds derived from the proposed sale of bonds will be used to redeem and retire the currently outstanding first mortgage bonds in the principal amount of $39,000 plus $1,950 for redemption premium and that the remaining proceeds from the sale of bonds, together with the proceeds from the proposed sale of the $6 dividend preferred stock will be used to construct a natural gas pipeline of approximately 32 miles in length, and to convert and extend its distribution system in the city of Gainesville, Georgia, for natural gas operation. According to the petition, the proposed 32 miles of pipeline will be 4½-inch O.D. extending from the pipeline of the Transcontinental Gas Pipe Line Corporation to the city of Gainesville, the cost of which is estimated at approximately $400,000, including metering and regulating equipment, and a town border station. The applicant proposes to spend approximately $161,000 for the conversion, extension, and enlargement of the present distribution system in Gainesville, Georgia.

The Northwestern Mutual Life Insurance Company proposes to purchase the entire bond issue at its principal amount, plus accrued interest, if any, and Georgia Gas Company proposes to sell 2,000 shares of the $6 dividend preferred stock to the United Cities Utilities Company at a price of $85 per share, the remaining 1,000 shares are proposed to be sold during 1953 at not less than $90 per share, and thereafter at a price of not less than $95 per share. It is proposed that the said preferred stock will not be entitled to any dividend prior to January 1, 1954. Attached to the petition of the company is a balance sheet statement of Georgia Gas Company as of

December 31, 1949, and December 31, 1950, a balance sheet statement as of September 30, 1951, an income statement for the nine months ending September 30, 1951, a copy of the proposed indenture of mortgage, a copy of the revised charter of the Georgia Gas Company authorizing the issuance of the proposed securities, an estimate of the construction cost of the pipeline, an estimate of the cost of extension, enlargement, and conversion of the distribution system, a copy of the proposed contract for the construction of the pipeline, a copy of the proposed construction contract for enlargement of the distribution system, and a copy of the proposed agreement for the purchase of the bonds.

At the hearing on this matter further documentary evidence was submitted in the form of exhibits. These included a certified copy of the resolutions of the stockholders of Georgia Gas Company authorizing the issuance and sale of the bonds, pro forma income statements for each of the first five years under the natural gas operation, certified copy of a resolution adopted by the board of directors of United Cities Utilities Company authorizing the purchase of the preferred stock of the Georgia Gas Company, certified copy of the resolution of the board of directors of the Georgia Gas Company to issue and sell the proposed bonds, and an executed agreement between the Northwestern Mutual Life Insurance Company and Georgia Gas Company to purchase the proposed bond issue at a price of 100 per cent of the principal amount thereof, plus accrued interest to the date of delivery.

According to the testimony, the contract price for the construction of the pipeline is $373,500 plus $6,500 for the town border station, and the company proposes to spend immediately $161,000 on extension of its distribution system, or some $432,000 over the next 5-year period. It was further testified that upon the issue and sale of the $6 dividend preferred stock to the United Cities Utilities Company, that company proposes to secure a loan with said stock as collateral in the amount of $165,000 to which the holding company will add $5,000 in cash to provide for the purchase price of $170,000 for the stock. It was testified that provisions were made for the waiver and noncumulation of dividends for a period of two years, since during this development period there would be a deficiency of revenues when related to the very substantial capital investment necessary to provide natural gas service. It was testified also that the distribution extension and enlargement was to be completed by March 15, 1952, according to the terms of the contract, and that construction of the pipeline was to be completed by April 30, 1952, with penalty provisions in the contracts for delayed performance.

Two phases of the proposed financing by Georgia Gas Company appear to require comment, and specific provisions relative thereto. One of these phases deals with the relatively small proportion of equity capital represented by common stock after the proposed financing, and the other phase is with respect to the price at which the preferred stock is to be sold. These will be discussed separately.

[1] According to the evidence, Georgia Gas Company has presently

outstanding 250 shares of common stock with a par value of $100 per share representing a total investment of $25,000 in the equity capital of the company. In view of the fact that the common stock will be the only voting stock of the company, thereby exercising complete control, it appears that the present amount of common stock is entirely inadequate in relationship to the total capitalization of the company, which will approximate $700,000 after the proposed securities are issued. In addition to the common stock, earned surplus represented $26,985.20 as of September 30, 1951, and amounts due the holding company total $28,662.13 as of the same date. Although the proposed mortgage indenture limits dividends on common stock, it is possible that at a later date or under a changed capitalization, the present earned surplus of the company might later become available for such dividends. Although the amounts due the holding company are not proposed to be repaid, there appears to be no reason why such amounts might not be repaid to the holding company if Georgia Gas Company had the funds available for such purpose. It appears that the common stock of Georgia Gas Company should be materially increased in its total value if the proposed securities are to be authorized.

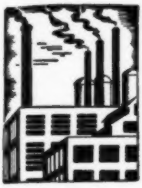
On examination of the company witness, it appeared impossible for the holding company to purchase any substantial additional amount of common stock in Georgia Gas Company, thereby providing a portion of the funds required for the purposes enumerated above. It seems therefore, that the minimum investment of the holding company in Georgia Gas Company's common stock should be the total of that presently issued, the amount of the earned surplus and the amount of the advances from the holding company. This order will, therefore, provide that the common stock of Georgia Gas Company be increased from 250 to 800 shares with a par value of $100 per share, and that such additional common stock be issued to United Cities Utilities Company, 280 shares in payment of $28,000 of advances to Georgia Gas Company, and 270 shares for $27,000 of the earned surplus of Georgia Gas Company.

[2] With respect to the second phase, it appears that the price of $85 per share for $6 dividend preferred stock of nonpar value is a low price and represents a cost of preferred stock money of some 7 per cent to Georgia Gas Company. It should be borne in mind, however, that the stock to be sold will pay no dividends for two years, neither will dividends accumulate during this period. If the $6 dividend for two years (or $12) be added to the price of the stock, it would be priced at approximately $97 per share at the present time. It appears, therefore, that the nonpayment of the dividends is equivalent to the sale of the stock at $97 per share with dividends payable from the date of its issuance. This would represent a cost of preferred stock money slightly in excess of 6 per cent and for a company the size of Georgia Gas Company, this does not appear unreasonably high. However, there appears to be no arrangements under which the stock might be sold on this basis. If it were, however, any deficiency in the dividends would come out of earned surplus. Since the earned surplus

balance will be practically eliminated by reason of the provisions above with respect to the issuance of additional common stock, there would be no surplus available for this purpose and immediate earnings would appear to be inadequate to cover a preferred dividend. While the preferred stock will be of nopar value, it should carry a stated value on the books of Georgia Gas Company of $100 per share, and the preferred stock so issued should be recorded under the "Preferred Capital Stock" account at $100 per share for each share issued. Inasmuch as the stock is to be sold for only $85 per share, a discount of $15 per share is created by the sale, which discount in reality reflects the inability of the company to pay a preferred stock dividend for the first two years. This discount of $15 per share should be recorded in Account 150, "Discount on Capital Stock." While the system of accounts prescribed for gas utilities does not require the amortization of this discount balance, it appears that in this instance this balance should be amortized over the shortest period feasible. Such amortization in effect, will result in the same end result as would occur had the stock been issued at $100 per share and dividends paid from the date of issuance. This treatment, therefore, gives recognition to the sale of the stock without discount, since the discount is to be amortized. It appears that the maximum period over which the discount should be amortized should be five years commencing not later than two years after the date of issuance of the stock, and this order will so provide.

[3] The company requests authority for the issuance of 3,000 shares of $6 dividend preferred stock, but testified that only 2,000 shares will be isued at the present time. It is proposed that at some later date the remaining 1,000 shares are to be issued and sold. It has been the policy of this Commission in other cases to authorize only that amount which is to be issued and sold in the immediate future. Consistent therewith authority will be granted at the present time for the issuance and sale of 2,000 shares of preferred stock without prejudice to the company making application for the issuance of additional stock at some future date.

It appears that the establishment of natural gas service in Gainesville, Georgia, is in the public interest, that the provisions of natural gas service in Gainesville will require substantial sums for capital expenditures, that the proposed financing contained in the application of Georgia Gas Company will provide such capital funds, that the authority requested should be granted with the conditions and provisions hereinabove outlined, and that the proposed issuance of securities, as modified herein, falls within the spirit and intent of § 93–414 of the 1933 Code of Georgia.



Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.

AGA Launches Gas Refrigerator Sales Campaign

GAS refrigerator sales are to be accelerated by a campaign which is being backed by the American Gas Association. Coöperating with Servel, AGA is promoting the all-new Servel gas refrigerator with a thoroughly rounded program advanced by the theme, "Open the Door!"

The campaign, which is part of AGA's PAR Program of promotion, advertising and research, links the sales forces of the manufacturer, gas utilities and gas appliance distributors and dealers throughout the country. It features a wide selection of models, competitively priced to suit every family and every budget. Campaigning will continue for 92 sales-making days, from June 1st through August 31st.

Merchandising aids include mailing pieces, newspaper advertisements, artificial food displays, demonstrators and sales training aids.

New Line of Gate Valve Drives

A COMPLETE new line of automatic gate valve drives especially designed for use in connection with gate or angle valves in pipelines carrying intense pressure has been announced by Janette Electric Mfg. Company, subsidiary of Gerity-Michigan Corp.

Announcement of the new line of motors was made by J. F. Ditzell, Janette president.

Janette Electric, specialists in the production of gear and fractional motors since 1910, will produce a regular line of the new gate valve motors ranging from 1/3 to 10 horsepower plus a special line ranging up to 50 horsepower.

Mr. Ditzell revealed that the company already had swung into production of the new line to fulfill "certain defense contracts."

Catalog Lists Line of Power-Factor Correction Capacitors

NEW catalog No. 27, listing its entire line of power-factor correction capacitors, is announced by John E. Fast & Company, Chicago. The catalog is in four separate sections, each dealing with specific types of capacitors. Section I gives general information on power-factor correction capacitor applications and locations, with general standards and specifications. Section II details Individual Units. Section III is devoted to Rack Type Assemblies, while Section IV lists Pole Types.

The firm, one of the oldest manufacturers of capacitors in America, provides types covering most standard indoor, outdoor and high voltage applications, inclusive of types applicable to electronic products.

Copies of the catalog are available by request from the manufacturer, 3155 N. Pulaski road, Chicago 41, Illinois.

British Columbia Power Co. Plans $140,000,000 Program

BRITISH COLUMBIA POWER COMPANY's capital expenditures program for the next five years calls for $140,000,000 with a further $8,000,000 needed if natural gas comes to the West Coast, A. E. Grauer, president, announced at a recent annual meeting.

He said the program is to keep pace with an assumed growth rate of 10% a year in electricity demand until 1953 and 7% thereafter.

New G-E Transformer Bushing Minimizes Porcelain Breakage

A NEW high-voltage transformer bushing, with simplified construction for minimizing porcelain breakage, has been developed by the General Electric Company's Power Transformer Department.

In the new bushing, designated by the company as the Type LC, the possibility of porcelain breakage is lessened by use of pressure clamping, G-E engineers said. Pressure clamping replaces the cemented-on clamping rings of a preceding type.

Reduced in size and weight, the new bushing will decrease the height of power transformers from one to five inches. It is liquid-filled and completely sealed to prevent internal corona discharges under high stress. It has a resin-impregnated paper core.

G-E engineers pointed out that even improper tightening of the bushing's support flange will not result in porcelain breakage. The porcelain is held under compression between the support flange, which is integral with the core, and a heavy spring washer and nut. Compression is the force porcelain is best able to resist.

The Type LC bushing is designed for large

(*Continued on page* 26)

power transformers in the 15 and 25 kv. classes, all power and distribution transformers in the 34.5, 46 and 69 kv. classes, and oil circuit breakers in the 25 kv. and 46 kv. classes.

Having the same support-flange dimensions as older type bushings, the new bushing may be used for replacement of the older equipment.

New Bulletin on Preferred Unit Steam Generator

A 28-PAGE bulletin No. 2000, especially prepared for engineers, consulting engineers, and architects for their guidance in understanding the advance design features that distinguish the Preferred Unit Steam Generator from other unit steam generator types, has been announced by Preferred Utilities Manufacturing Corporation.

The bulletin describes the engineering differences of the component features of the self-contained Preferred Unit Steam Generator which permit economical service for an average life of 25 years. Numerous illustrations of the components and the unit including cutaway views for easy visual references supplement the descriptions.

As shown, these features developed from years of research and developmental work include staggered tubes, four-pass gas travel construction, anti-stress deck, expansile precipitator, induced draft, and horizontal rotary oil burner. Combination gas and oil-fired unit is also described. Preferred units can be fired by light oil, heavy oil, natural and manufactured gas.

Copies of the bulletin are free on request to Preferred Utilities Manufacturing Corporation, 1860 Broadway, New York 23, New York.

Northern States Pwr. Black Dog Lake Plant to Open in Fall

NORTHERN STATES POWER COMPANY will put into service in September its first 60,000-kilowatt generator at the new Black Dog Lake plant, according to B. F. Braheney, president.

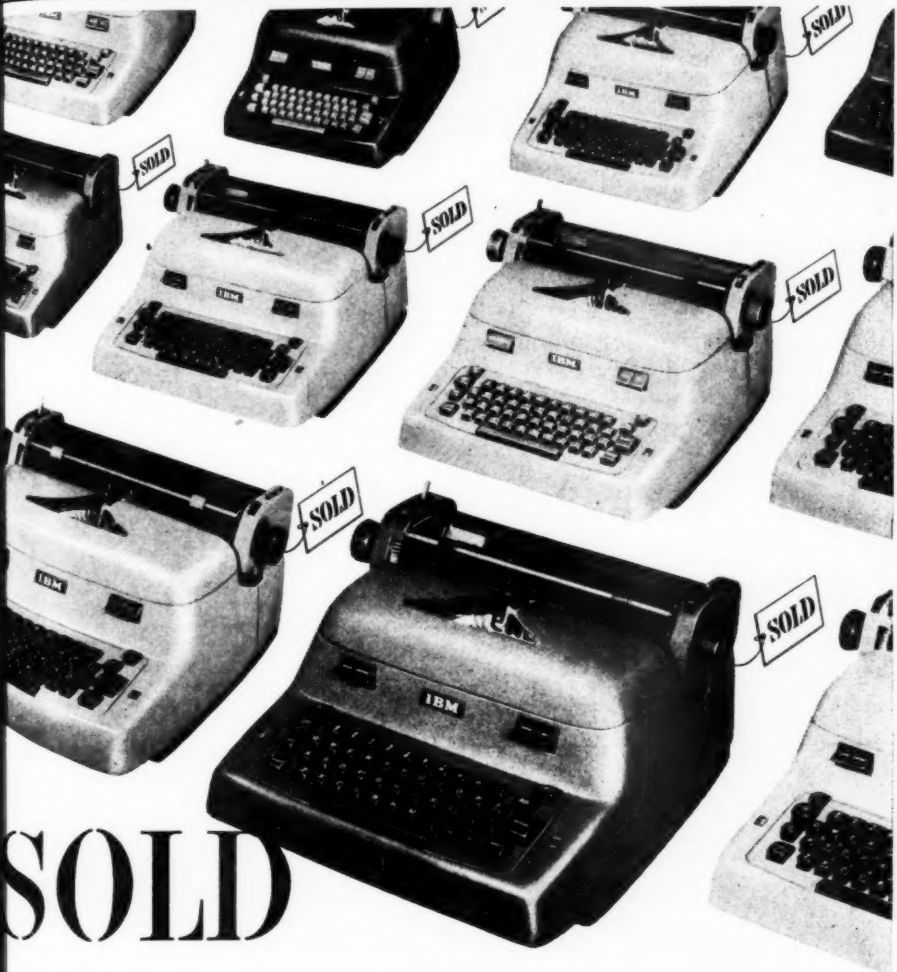
When completed the 300,000-kilowatt plant will represent an investment of between \$50,000,000 and \$60,000,000, and eventually will be the largest steam generating plant in the system.

Mr. Braheney disclosed the company will spend \$35,000,000 this year on new generating facilities, transmission lines, and additional gas facilities. This is part of a 10-year postwar expansion program that will see at least \$303,000,000 invested in new construction between 1947 and 1956.

Gai-Tronics Corporation Promotes A. R. Royle

A. R. ROYLE has been appointed general manager and elected to the board of directors of the Gai-Tronics Corporation, Reading, Pennsylvania, effective May 1st. Mr. Royle's promotion was announced by L. D. Staver, president of the international engineering firm,

(*Continued on page* 28)



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Gilbert Associates, Inc., parent company to Gai-Tronics.

Mr. Royle joined Gai-Tronics in September, 1949, as sales manager. He moved over from Stromberg-Carlson where he had been sales manager of the sound equipment division for the last eight of his more than 20 years' association. Prior to becoming a sales manager at Stromberg-Carlson, he divided his time between radio engineering and radio sales.

Gai-Tronics is a leading manufacturer of specialized power plant communication systems. Gai-Tronics equipment is unusual in that it makes possible practically normal telephone conversations in the noisiest industrial and power plants.

Hall Laboratories Promotes H. M. Rivers

H. M. RIVERS, assistant director of engineering service, Hall Laboratories, Inc., Pittsburgh, Pennsylvania, has been promoted to the position of director of engineering service.

He succeeds J. N. Welsh, who as associate director of Hall Laboratories, Inc., recently assumed new business administration duties in this firm of engineering consultants in industrial, municipal, utility and marine water and waste treatment problems.

In his new duties, Mr. Rivers will direct the service activities of Hall field and headquarters engineers.

Mr. Rivers is widely known for his development of the Hagan Automatic Degasser, an instrument for determining steam purity. It produces continuously and automatically an approximately 50-50 split of a flowing steam sample, one fraction containing any dissolved solids that may be present and the other any dissolved gases—thus permitting more precise measurement and control of steam purity.

Texas Eastern Files New Pipeline Application

TEXAS EASTERN TRANSMISSION CORPORATION has filed an application with the Federal Power Commission requesting approval to build new pipeline facilities in Texas and Louisiana at a cost of approximately $26,000,000.

The new line as proposed will consist of 315 miles of 24-inch diameter pipe. Plans provide for constructing and placing the new line in operation by November 1, 1952. As projected the pipeline will originate near Provident City, Texas, which is the terminus of Texas Eastern's 16-inch line in that area, and will extend in a northeasterly direction through Texas and Louisiana to a tie-in point with the company's 20-inch line near Castor, Louisiana.

Wisconsin Electrical Issues Bulletin

A BULLETIN describing its specially engineered, custom-built switching, indicating and recording equipment for utility, industrial, municipal and experimental applications, has been released by the Wisconsin Electrical Manufacturing Company, Milwaukee, Wisconsin.

Bulletin shows various installations built by the company and currently in operation in various locations. Complete information relative to

(*Continued on page* 30)

its consulting-engineering services also is contained in the bulletin.

Copies of bulletin No. PSC-1-452, may be obtained from Wisconsin Electrical Manufacturing Co., 1043 W. Clybourn Street, Milwaukee 3, Wisconsin.

"Job-Fitted" Intercommunications System

TALK-A-PHONE COMPANY, Chicago, recently introduced the Talk-A-Phone "job-fitted" intercommunications system, with eleven optional features designed so that a single system may be adapted to any specific requirement from a simple inter-office system to the most elaborate industrial layout.

Described by its makers as the intercom that "has everything—does everything," the new Talk-A-Phone offers as optional equipment each of eleven exclusive developments by its engineering staff over the past few years, including busy signal; Redi-power; dynasonic performance; multi-magic selector; privacy handset; earphone; right-of-way relay; hold-a-matic pushbuttons; silent touch bar; unitrans and conference features.

Adaptable to practically any individual or specific need of its user, the units can be delivered to include all of the exclusive features, or any combination required. Described as the most versatile intercom produced, the new Talk-A-Phone combines the familiar Talk-A-Phone streamlined cabinet with any array of "plus" features required.

Its adaptability is also reflected in its economy, Talk-A-Phone executives said. With this model there is no need to buy any features or units for the entire system which will not be used enough by any given unit to justify their installation. More units and features may be added as needed, without obsoleting original equipment.

Arkansas Pwr. & Lt. Plans $35,650,000 Expansion

ARKANSAS POWER & LIGHT COMPANY has asked the Arkansas Public Service Commission for authority to build additions to its Cecil S. Lynch plant at Rose City, Arkansas, and its Harvey Couch plant at Stamps, Arkansas, costing $35,650,000, the largest expansion in the company's history.

Of the total amount, $26,250,000 would be spent on plant expansion at the two units and $9,400,000 on transmission lines from the two plants. Plans call for addition of a 135,000-kilowatt steam generating unit at each of the two plants and 472 miles of high voltage lines to carry the extra power. Present capacity of the Lynch plant is 104,000-kilowatts and that of the Harvey Couch plant 34,000-kilowatts.

The proposed additional units, together with a 105,000-kilowatt generator now under construction at Lake Catherine, will make the total capacity of the company's four largest plants 757,000-kilowatts. Trial operation of both new generators is scheduled for October 1, 1953.

"Satisfaction all the way with Dodge!"

. . . *says* **F. F. WASSER**

South Carolina Electric & Gas Co.

Columbia, S. C.

We have been using Dodge trucks of ll sizes, from ½-ton through 3-ton, for ver 15 years.

I guess that speaks for itself. There's een satisfaction all the way with Dodge! Maintenance cost is *less* than he average of other trucks we use!"

Dodge "*Job-Rated*" trucks are serving *any* utility companies with the thorugh satisfaction expressed by Mr. Wasser. They will save time and work nd money in *your* service, too.

For example, you get a money-saving igh-compression engine with 4-ring istons, chrome-plated top rings and exaust valve seat inserts. You also get exceptional handling ease, braking safety, cab comfort, and other advantages.

What's more, *Dodge trucks offer* gýrol Fluid Drive—available on ½-, ¾- and 1-ton models—to give you *smoother* performance, save wear, lengthen truck life.

Your friendly Dodge dealer will be happy to tell you more.

DODGE "Job-Rated" TRUCKS

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Peak-load capacity released quickly economically by G-E switched capacitors

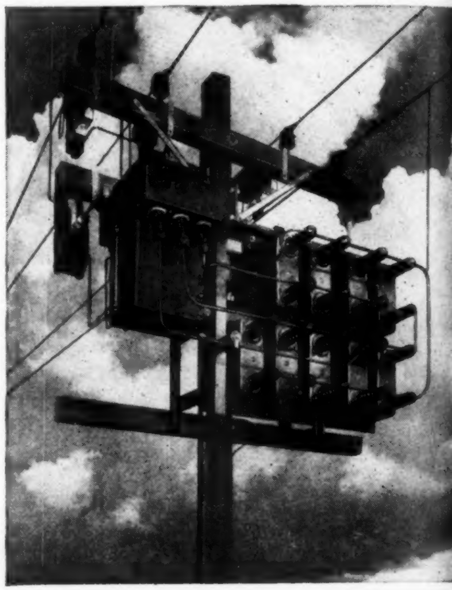
Capacitor equipments can be supplied on short delivery . . . some at a cost of less than $6.00 per kvar . . . installed in a matter of hours .

Capacitors continue to provide one of the fastest, cheapest ways to release system capacity. By raising voltage levels and reducing system current for a given load, they can free the system for the delivery of more kilowatts—at a fraction of the cost—and in a fraction of the time—it would take to add new system capacity.

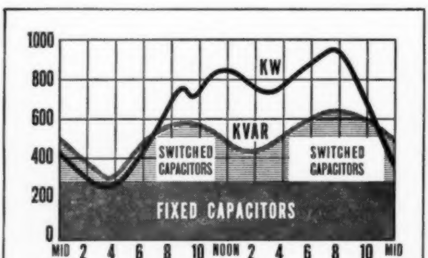
Where you have already installed a high percentage of fixed capacitors—or where your kilovar loading varies widely in any 24-hour period—it will pay you to investigate the use of switched capacitors to alleviate peak conditions.

Automatically-switched General Electric capacitors can be supplied on short delivery—for as little as $5.66 per kvar. They can be installed on your distribution feeders or at the substation—in a matter of hours. And they provide one of the least expensive methods of releasing system capacity.

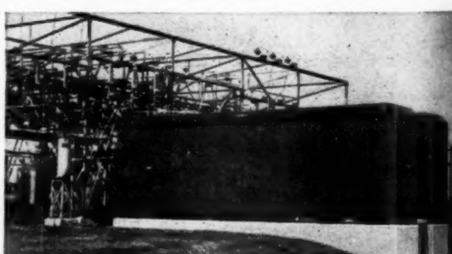
For information on how switched capacitors can help you to meet today's climbing loads, call your nearest G-E Apparatus Sales Office. Or write to Section 407-36E, *General Electric Company, Schenectady 5, New York.*



ON DISTRIBUTION FEEDERS. Pole-mounted G-E automatically-switched capacitors are used by many utilities to bring kilovar supply close to load. These factory-assembled units cost as little as $5.66 per kvar.



FLEXIBLE KILOVAR SUPPLY. Where kilovar loading varies widely in any 24-hour period, G-E switched capacitors can supplement fixed capacitors in providing economical kilovars. (Ruled area shows kilovars furnished by synchronous condensers or generators.)



AT THE SUBSTATION. General Electric switched capacitor equipments can be used in large banks to supply bulk kilovars. Completely-enclosed equipments like this 5100-kvar, 13,200-volt bank installed by Metropolitan Edison Co., now cost as little as $7.00 per kvar.

GENERAL ELECTRIC

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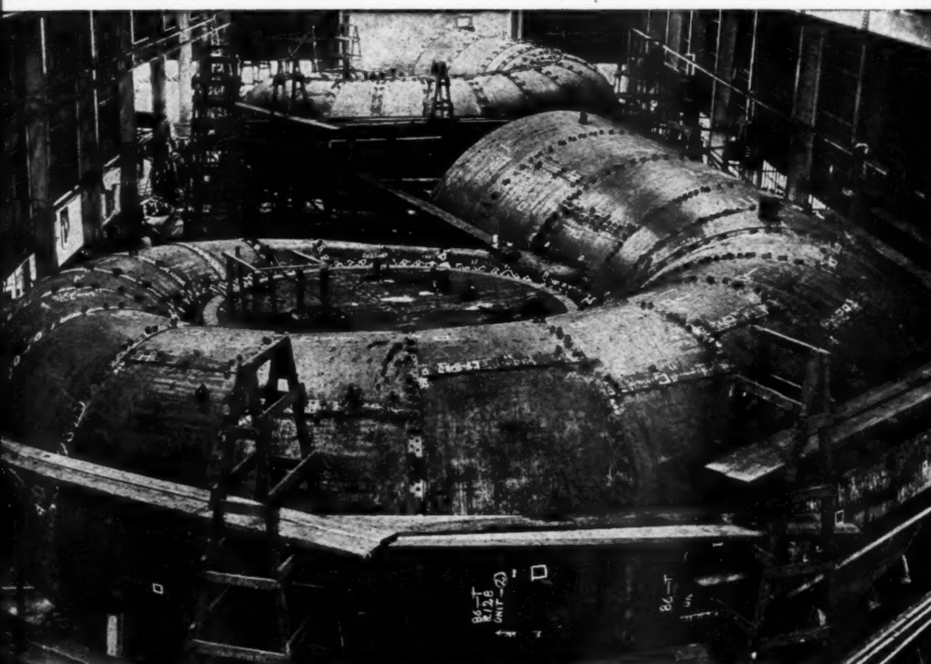
OVER EIGHT MILLION HORSEPOWER

The Newport News Shipbuilding and Dry Dock Company has received orders for the building of hydraulic turbines aggregating output of 8,150,000 horsepower.



ASSEMBLY OF SPIRAL CASINGS FOR C. J. STRIKE DEVELOPMENT

NEWPORT NEWS

SHIPBUILDING AND DRY DOCK COMPANY

Newport News, Virginia

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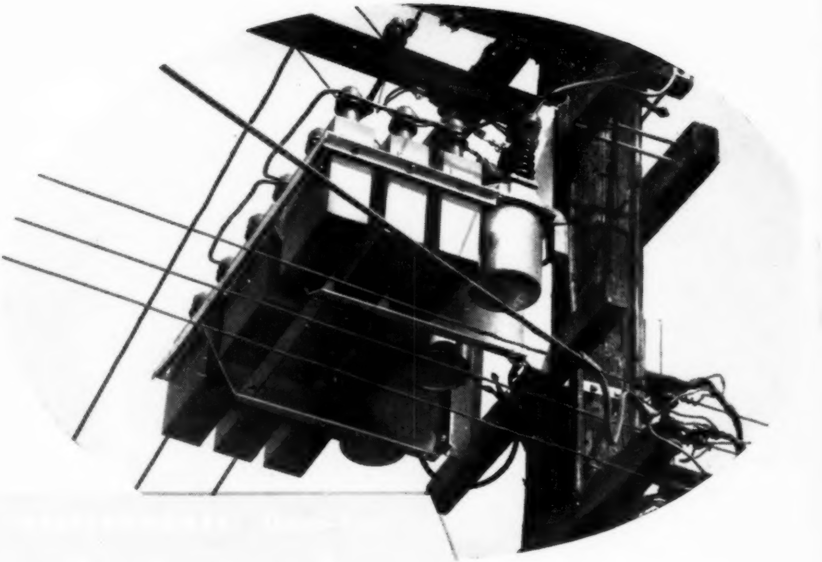

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